



**GREEN  
CLIMATE  
FUND**

**Meeting of the Board**  
5 – 6 July 2017  
Songdo, Incheon, Republic of Korea  
Provisional agenda item 28

**GCF/B.17/21**  
8 August 2017

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# Decisions of the Board – seventeenth meeting of the Board, 5 – 6 July 2017

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## Table of Contents

Agenda item 1:	Opening of the meeting	1
Agenda item 2:	Adoption of the agenda and organization of work	1
Agenda item 3:	Adoption of the report of the sixteenth meeting of the Board	2
Agenda item 4:	Decisions proposed and approved between the sixteenth and seventeenth meetings of the Board	2
Agenda item 5:	Report on the activities of the Co-Chairs, including the outcomes of the Co-Chairs' consultations, and the updated Board Work Plan for 2017	3
Agenda item 6:	Report on the activities of the Secretariat	5
Agenda item 7:	Reports from committees, panels and groups	5
Agenda item 8:	Matters related to guidance from the Conference of the Parties	5
Agenda item 9:	Matters outstanding from the sixteenth meeting of the Board	6
Agenda item 10:	Selection of the permanent Trustee	6
Agenda item 11:	Update on the development of policies related to anti-money laundering and countering the financing of terrorism	6
Agenda item 12:	Analysis of barriers to crowding-in and maximizing the engagement of the private sector, including Private Sector Advisory Group recommendations	7
Agenda item 13:	Readiness and preparatory support	7
Agenda item 14:	Status of the GCF portfolio: pipeline and approved projects	8
Agenda item 15:	Policy matters related to the approval of funding proposals	9
Agenda item 16:	GCF risk management framework	11
Agenda item 17:	Performance management agreements for Board-appointed officials	12
Agenda item 18:	Matters related to accreditation	13
Agenda item 19:	Matters related to support for REDD-plus	15
Agenda item 20:	Status of resources	16
Agenda item 21:	Issues related to the status of the staffing of the Secretariat	16
Agenda item 22:	Country ownership guidelines	16
Agenda item 23:	Report on the execution of the administrative budget and 2016 audited financial statements	17
Agenda item 24:	Policy on ethics and conflicts of interest for active observers of the Green Climate Fund	17

Agenda item 25:	Dates and venues of the following meetings of the Board	17
Agenda item 26:	Other matters	18
Agenda item 27:	Report of the meeting	18
Agenda item 28:	Close of the meeting	18
Annex I:	Updated work plan of the Board for 2017	19
Annex II:	Operational Framework for complementarity and coherence	31
Annex III:	Immediate actions that the Secretariat will implement	48
Annex IV:	Updated project and programme cycle	50
Annex V:	Risk management framework component I – revised risk register	55
Annex VI:	Risk management framework component II – risk appetite statement	69
Annex VII:	Risk management framework component III – risk dashboard	79
Annex VIII:	Risk management framework component IV – “Risk guidelines for funding proposals”	84
Annex IX:	Risk management framework component V – risk rating approach	92
Annex X:	Performance criteria and measurement procedures of the Executive Director of the Green Climate Fund Secretariat	97
Annex XI:	Accreditation assessment of Applicant 050 (APL050)	105
Annex XII:	Accreditation assessment of Applicant 051 (APL051)	114
Annex XIII:	Accreditation assessment of Applicant 052 (APL052)	123
Annex XIV:	Accreditation assessment of Applicant 053 (APL053)	135
Annex XV:	Accreditation assessment of Applicant 054 (APL054)	143
Annex XVI:	Accreditation assessment of Applicant 055 (APL055)	153
Annex XVII:	Summary of recommendations	162
Annex XVIII:	Additional entities of other relevant funds for fast-track accreditation eligibility	171
Annex XIX:	Accreditation Master Agreement between the Green Climate Fund and Conservation International Foundation	172
Annex XX:	Guidelines for enhanced country ownership and country drivenness	173
Annex XXI:	Green Climate Fund Report on Audits of Financial Statements	17478

## **Agenda item 1: Opening of the meeting**

1. The Co-Chairs opened the meeting on Wednesday, 5 July 2017 at 9 a.m.

## **Agenda item 2: Adoption of the agenda and organization of work**

2. The Board adopted the agenda as set forth in document GCF/B.17/01/Drf.02 titled "Provisional agenda":
  1. Opening of the meeting
  2. Adoption of the agenda and organization of work
  3. Adoption of the report of the sixteenth meeting of the Board
  4. Decisions proposed and approved between the sixteenth and seventeenth meetings of the Board
  5. Report on the activities of the Co-Chairs, including the outcomes of the Co-Chairs' consultations, and the updated Board work plan for 2017
  6. Report on the activities of the Secretariat
  7. Reports from committees, panels and groups<sup>1</sup>
  8. Matters related to guidance from the Conference of the Parties
    - a) Sixth report of the GCF to the Conference of the Parties, including the biannual report on privileges and immunities
    - b) Complementarity and coherence
  9. Matters outstanding from the sixteenth meeting of the Board
    - a) Implementation of the initial strategic plan for the GCF
    - b) Facilitating an increase in proposals from direct access entities
  10. Selection of the permanent Trustee
  11. Update on the development of policies related to anti-money laundering and countering the financing of terrorism
  12. Analysis of barriers to crowding-in and maximizing the engagement of the private sector, including Private Sector Advisory Group recommendations
  13. Readiness and preparatory support
    - a) Update on the Readiness and Preparatory Support Programme
    - b) Work programme on readiness and preparatory support
    - c) Terms of reference for the independent evaluation of the Readiness and Preparatory Support Programme
  14. Status of the GCF portfolio: pipeline and approved projects
  15. Policy matters related to the approval of funding proposals
    - a) Review of the initial proposal approval process

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<sup>1</sup> To include the recommendation of the Ethics and Audit Committee on various matters regarding conflicts of interest of persons engaged with the GCF; and work programmes of committees, panels, and groups that include actions outlined in the Strategic Plan.

- b) Status of the fulfilment of conditions associated with the approval of relevant funding proposals
  - c) Matters arising from the informal discussions
16. GCF risk management framework
  17. Performance management agreements for Board-appointed officials
  18. Matters related to accreditation
    - a) Consideration of accreditation proposals
    - b) Accreditation policy matters
    - c) Accreditation master agreements
  19. Matters related to support for REDD-plus
    - a) REDD-plus results-based payments
    - b) Further guidance for national designated authorities and focal points on how to engage with the GCF in the early phases of REDD-plus
  20. Status of resources
  21. Issues related to the staffing of the Secretariat
  22. Country ownership guidelines
  23. Report on the execution of the administrative budget and 2016 audited financial statements
  24. Policy on ethics and conflicts of interest for active observers of the Green Climate Fund
  25. Dates and venues of the following meetings of the Board
  26. Other matters
  27. Report of the meeting
  28. Close of the meeting

### **Agenda item 3: Adoption of the report of the sixteenth meeting of the Board**

3. The Co-Chairs drew the attention of the Board to the report of the sixteenth meeting of the Board as circulated to the Board (document GCF/B.16/24 (general distribution) and Add.01 (limited distribution) titled "Report of the sixteenth meeting of the Board, 4-6 April 2017").

### **Agenda item 4: Decisions proposed and approved between the sixteenth and seventeenth meetings of the Board**

4. The Board took note of document GCF/B.17/Inf.07 titled "Decisions taken between the sixteenth and seventeenth meetings of the Board".

## Agenda item 5: Report on the activities of the Co-Chairs, including the outcomes of the Co-Chairs' consultations, and the updated Board Work Plan for 2017

5. The Board took note of document GCF/B.17/Inf.09 titled "Report on the activities of the Co-Chairs" and its addendum titled "Addendum to the report on the activities of the Co-Chairs: Updated work plan of the Board for 2017".
6. The Co-Chairs informed the Board that they would consult with a view to issue a decision in between meetings on the establishment and terms of reference for a Committee for the Evaluation of Board-Appointed Officials Committee and the Accountability of the Independent Units.
7. The Board adopted the following decisions:

### *DECISION B.17/01*

*The Board, having considered document GCF/B.17/Inf.09 titled "Report on the activities of the Co-Chairs" and GCF/B.17/Inf.09/Add.01 titled "Addendum to the report on the activities of the Co-Chairs: Updated work plan of the Board for 2017":*

- (a) *Takes note of the updated Board work plan for 2017, as set out in annex I;*
- (b) *Decides to defer consideration of the following matters and requests the Secretariat, in consultation with the Co-Chairs and the relevant committees, panels, and groups of the Board, to progress its work on these matters and present these for consideration by the Board at the earliest possible opportunity:*
  - (i) *Work programmes of the committees, panels and groups of the Board, including the actions outlined in the strategic plan in their respective deliberations and work programmes, as appropriate, throughout the Initial Resource Mobilization period, requested pursuant to decision B.12/20, paragraph (f);*
  - (ii) *The GCF communications strategy, requested pursuant to decisions B.04/14 and B.13/25;*
  - (iii) *The report on the outcomes of the annual review of the financial terms and conditions of the GCF financial instruments, requested pursuant to decision B.15/05, paragraph (b);*
  - (iv) *Proposals on indicative minimum benchmarks as noted in decision B.14/07, paragraph (e);*
  - (v) *Recommendations on further steps to enhance cooperation and coherence with the Technology Executive Committee and the Climate Technology Centre and Network, requested pursuant to decision B.14/02, paragraph (d);*
  - (vi) *Options on how the GCF can support collaborative research and development in developing countries, requested pursuant to decision B.14/02, paragraph (f);*
  - (vii) *Alternative policy approaches for the integral and sustainable management of forests, requested pursuant to decisions B.12/07, paragraph (e) and B.14/01, paragraph (b);*
  - (viii) *Policies and procedures for contributions from philanthropic foundations and other non-public and alternative sources to the Initial Resource Mobilization process, requested pursuant to decisions B.11/05, paragraph (d) and B.14/01, paragraph (i);*

- (ix) *A fund-wide Indigenous peoples' policy, requested pursuant to decision B.15/01, paragraph (a);*
  - (x) *The further development of some indicators in the performance measurement frameworks as contained in document GCF/B.13/26, titled "Further development of some indicators in the performance measurement frameworks", requested pursuant to decisions B.08/07, paragraph (b) and B.13/34;*
  - (xi) *The method and criteria for prioritization of entities applying for accreditation, requested pursuant to decision B.14/08, paragraph (d)(ii);*
  - (xii) *Modalities for the use of third-party evidence in the accreditation process, requested pursuant to decision B.14/08, paragraph (e)(i);*
  - (xiii) *An assessment, including a gap analysis, of the Adaptation Fund's Environmental and Social Policy (approved in November 2013 and amended in March 2016) and Gender policy (approved in March 2016) in line with the GCF interim environmental and social safeguards and gender policy with recommendations on their potential accreditation or fast-tracking, requested pursuant to decision B.14/08, paragraph (e)(iii);*
  - (xiv) *The review of funding for the Project Preparation Facility, requested pursuant to decision B.13/21, paragraph (f);*
  - (xv) *The outcome of the performance review of the members of the Accreditation Panel, requested pursuant to decision B.BM-2017/03, paragraph (e);*
  - (xvi) *The final report from the review of the independent Technical Advisory Panel's structure and effectiveness, requested pursuant to decision B.15/06, paragraph (c);*
  - (xvii) *Modalities for the qualitative and quantitative review of the webcasting service requested pursuant to decision B.12/35, paragraph (f);*
  - (xviii) *The approval of the revised terms of reference for the independent Redress Mechanism, requested pursuant to decisions B.13/24, paragraph (e), and B.15/12, paragraph (c);*
  - (xix) *The complete work plan and budget of the Independent Evaluation Unit for 2017, requested pursuant to decision B.16/07, paragraph (b);*
  - (xx) *The presentation of the outcome of the Co-Chairs' consultations and recommendations based on lessons learned from the current application of financial terms and conditions, requested pursuant to decision B.12/17, paragraph (c);*
  - (xxi) *The document on the mobilizing of private sector finance to progress the GCF forestry-related results areas, requested pursuant to decision B.14/01, paragraph (a); and*
- (c) *Decides, recalling decision B.12/39, paragraph (a), to approve the continued application of the corporate procurement guidelines on the use of consultants and the corporate procurement guidelines for goods and services, until the Board shall have approved the revised guidelines.*

#### DECISION B.17/02

*The Board:*

- (a) *Authorizes the Secretariat to provide a loan from the administrative budget of the Secretariat to the administrative budget of the Independent Evaluation Unit in an amount and for a period determined by the Co-Chairs, in consultation with members and alternate members of the Board; and*

- (b) *Also authorizes the Secretariat to reimburse an equivalent amount from the administrative budget of the Independent Evaluation Unit to the administrative budget of the Secretariat upon the approval of the Board of the workplan and budget of the Independent Evaluation Unit for 2017.*

## **Agenda item 6: Report on the activities of the Secretariat**

8. The Board took note of document GCF/B.17/Inf.01 titled “Report on the activities of the Secretariat”.

## **Agenda item 7: Reports from committees, panels and groups**

9. The Board took note of document GCF/B.17/Inf.02 and its addenda Add.01 titled “Reports from committees, panels and groups of the Board of the Green Climate Fund” and Add.02 titled “Status update on indicative minimum benchmarks”.

## **Agenda item 8: Matters related to guidance from the Conference of the Parties**

### **(a) Sixth report of the GCF to the Conference of the Parties, including the biannual report on privileges and immunities**

10. The Board took note of document GCF/B.17/02 titled “Sixth Report of the Green Climate Fund to the Conference of the Parties to the United Nations Framework Convention on Climate Change”.
11. The Board adopted the following decision:

#### *DECISION B.17/03*

*The Board, having considered document GCF/B.17/02 titled “Sixth report of the Green Climate Fund to the Conference of the Parties to the United Nations Framework Convention on Climate Change”:*

*Requests the Co-Chairs, assisted by the Secretariat, to finalize the “Sixth report of the Green Climate Fund to the Conference of the Parties to the United Nations Framework Convention on Climate Change” as presented in document GCF/B.17/02 and to be annexed to the report of the seventeenth meeting of the Board, taking into consideration the comments made and decisions taken at the seventeenth meeting of the Board, and submit the revised report to the United Nations Framework Convention on Climate Change secretariat no later than 12 weeks prior to the twenty-third session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, in accordance with UNFCCC decision 7/CP.20, paragraph 23.*

### **(b) Complementarity and coherence**

12. The Board took note of document GCF/B.17/08 titled “Operational Framework on complementarity and coherence”.
13. The Board adopted the following decision:

#### *DECISION B.17/04*

*The Board, having considered document GCF/B.17/08 titled “Operational Framework on complementarity and coherence”:*

- (a) *Adopts the operational framework on complementarity and coherence contained in annex II to this document;*
- (b) *Requests the Secretariat to present a report on the progress made and outputs from the operational framework on complementarity and coherence in line with decision B.13/21, paragraph (c), for consideration by the Board in 2018, and to provide an annual update thereafter;*
- (c) *Encourages the Executive Director to host the annual dialogue with climate finance delivery channels in the margins of the eighteenth meeting of the Board and to utilize it as a forum for exchange between the GCF and relevant climate finance delivery channels; and*
- (d) *Requests the Secretariat to include outcomes and updates related to complementarity and coherence in the report to the Conference of the Parties to the United Nations Framework Convention on Climate Change for consideration by the Board, and to continue cooperation with the Standing Committee on Finance in line with decision B.13/11.*

## **Agenda item 9: Matters outstanding from the sixteenth meeting of the Board**

### **(a) Implementation of the initial strategic plan for the GCF**

14. The Board took note of document GCF/B.17/11 titled “Implementation of the Initial Strategic Plan of the GCF: Update on country programmes and entity work programmes”.

15. The Board adopted the following decision:

#### *DECISION B.17/05*

*The Board, having considered document GCF/B.17/11 titled “Implementation of the Initial Strategic Plan of the GCF: Update on country programmes and entity work programmes”:*

- (a) *Takes note of the information provided in the document;*
- (b) *Welcomes the progress made with the preparation of country and entity work programmes;*
- (c) *Requests the Secretariat to consolidate the country and entity work programmes and provide the Board with the document, as appropriate; and*
- (d) *Amends decision B.12/20, paragraph (d), to replace “at each Board meeting” with the words “annually through a comprehensive status report”.*

### **(b) Facilitating an increase in proposals from direct access entities**

16. No decision was taken under this agenda item.

## **Agenda item 10: Selection of the permanent Trustee**

17. No decision was taken under this agenda item.

## **Agenda item 11: Update on the development of policies related to anti-money laundering and countering the financing of terrorism**

18. No decision was taken under this agenda item.

## **Agenda item 12: Analysis of barriers to crowding-in and maximizing the engagement of the private sector, including Private Sector Advisory Group recommendations**

19. The Board took note of document GCF/B.17/03 titled “Analysis of barriers to crowding-in and maximizing the engagement of the private sector, including Private Sector Advisory Group recommendations”.
20. The Board adopted the following decision:

### *DECISION B.17/06*

*The Board, having considered document GCF/B.17/03 titled “Analysis of barriers to crowding-in and maximizing the engagement of the private sector, including Private Sector Advisory Group recommendations”:*

- (a) *Welcomes the analysis provided by the Secretariat and the recommendations from the Private Sector Advisory Group;*
- (b) *Requests the Secretariat to integrate the analysis and recommendations into the future work of the Private Sector Facility, as appropriate, whilst taking into account country needs and priorities;*
- (c) *Requests the Secretariat to develop an annual work plan for the Private Sector Facility;*
- (d) *Requests the Private Sector Advisory Group to provide recommendations, in accordance with decision B.15/03, paragraph (i), to the Board at its eighteenth meeting on:*
  - (i) *The development of modalities to support activities enabling private sector involvement in the least developed countries and small island developing States; and*
  - (ii) *Opportunities to engage the private sector, including local actors, in adaptation action at the national, regional and international levels; and*
- (e) *Requests the Secretariat, in accordance with decision B.09/07, paragraph (h), and recognizing decision B.08/03, to provide recommendations for modalities to fast-track the accreditation of private sector entities by the nineteenth meeting of the Board.*

## **Agenda item 13: Readiness and preparatory support**

### **(a) Update on the Readiness and Preparatory Support Programme**

21. The Board took note of document GCF/B.17/Inf.06 titled “Readiness and Preparatory Support Programme: Progress Report”.

### **(b) Work programme on readiness and preparatory support**

22. The Board took note of document GCF/B.17/10 titled “Readiness and Preparatory Support Programme: Work Programme”, and requested the Secretariat to further develop the work programme, taking into account comments made, and present it at the eighteenth meeting of the Board.

**(c) Terms of reference for the independent evaluation of the Readiness and Preparatory Support Programme**

23. The Board adopted the following decision:

*DECISION B.17/07*

*The Board:*

- (a) *Invites the independent Evaluation Unit to undertake the independent evaluation of the Readiness and Preparatory Support Programme; and*
- (b) *Requests the head of the independent Evaluation Unit, in consultation with the Co-Chairs, to prepare the terms of reference for the independent evaluation of the Readiness and Preparatory Support Programme to be considered by the Board as a decision between meetings.*

**Agenda item 14: Status of the GCF portfolio: pipeline and approved projects**

24. The Board took note of document GCF/B.17/09 titled “Status of the GCF portfolio: pipeline and approved projects”.

25. The Board adopted the following decision:

*DECISION B.17/08*

*The Board, having considered document GCF/B.17/09 titled “Status of the GCF portfolio: pipeline and approved projects”:*

- (a) *Takes note of the status of the GCF pipeline and the analysis of the portfolio;*
- (b) *Requests the Secretariat to undertake additional analysis, taking into consideration the potential investment priority areas presented in document GCF/B.09/06, to identify specific results areas where targeted GCF investment would have the most impact; and*
- (c) *Also requests the Secretariat to undertake the following actions in relation to the relevant results areas referred to in paragraph (b) above in order to align the portfolio composition with the initial results management framework contained in decision B.07/04:*
  - (i) *Undertake targeted outreach to promote partnerships between accredited entities and those potential non-accredited entities that have the technical expertise to support such results areas;*
  - (ii) *Prepare targeted draft requests for proposals for the Board’s consideration, as appropriate; and*
  - (iii) *Work with accredited entities to ensure that the financial terms and conditions proposed in concept notes and funding proposals for concessional loan products meet the principles agreed in annex XIII to decision B.07/05 (annex XIII to document GCF/B.07/11), including on the minimum amount of concessionality, and in this context, and pending the conclusion of the review of financial terms and conditions, apply the financial terms and conditions set out in annex II to decision B.09/04 (annex II to document GCF/B.09/23) in a fit-for-purpose manner, provided that such terms and conditions do not exceed the upper limits set out therein.*

## Agenda item 15: Policy matters related to the approval of funding proposals

### (a) Review of the initial proposal approval process

26. The Board took note of document GCF/B.17/18 titled “Review of the initial proposal approval process”.

27. The Board adopted the following decision:

#### *DECISION B.17/09*

*The Board, having considered document GCF/B.17/18 titled “Review of the initial proposal approval process”:*

- (a) *Takes note of the update from the Investment Committee on progress related to Board-mandated work on indicative minimum benchmarks, financial terms and conditions, and the performance review of the independent Technical Advisory Panel;*
- (b) *Also takes note of the review of the initial proposal approval process undertaken pursuant to decision B.11/11, paragraph (j);*
- (c) *Endorses the immediate actions that the Secretariat will implement in order to improve the effectiveness, transparency and country ownership of the initial proposal approval process, as contained in annex III;*
- (d) *Requests the Secretariat to only submit to the Board those funding proposals:*
  - (i) *Submitted to the Secretariat by entities accredited by the Board that have signed accreditation master agreements;*
  - (ii) *Submitted to the Secretariat by entities accredited by the Board that have not signed accreditation master agreements, provided that such submission to the Secretariat occurs no later than 120 days from the date of the decision by the Board to accredit the relevant entity;*
  - (iii) *Submitted to the Secretariat in response to requests for proposals issued by the GCF; or*
  - (iv) *From those entities who have not yet signed the accreditation master agreement that have proposals currently at stage 4 of the updated project and programme activity cycle;*
- (e) *Underscores the importance of early engagement by accredited entities with national designated authorities and focal points in the preparation and submission of concept notes;*
- (f) *Agrees, in the context of decision B.11/11, paragraph (p), to insert the following new stage into the project and proposal activity cycle:*

*“On receipt of a concept note submission from an accredited entity, the Secretariat will seek confirmation from the national designated authority or focal point that the concept note fits under national priorities and country ownership”;*
- (g) *Requests the Secretariat to prepare a document, for the Board’s consideration at its nineteenth meeting, which outlines options for the development of a two-stage proposal approval process, with stage 1 focusing on concept note approval and stage 2 focusing on the assessments by the Secretariat and the independent Technical Advisory Panel and Board consideration;*

- (h) *Also requests the Secretariat to present to the Board implementation challenges identified in the application of the initial proposal approval process, including policy matters identified during the Secretariat's assessment of funding proposals, for the Board's consideration at the earliest opportunity, including information on budgetary considerations;*
- (i) *Decides that the Secretariat shall only submit to the Board for its consideration those funding proposals (stage 5 of the updated project and programme activity cycle) whose approval has been recommended by the independent Technical Advisory Panel and the Secretariat;*
- (j) *Confirms that proposals not recommended by the independent Technical Advisory Panel and the Secretariat, as outlined in paragraph (i) above, will continue to be revised by the Secretariat and accredited entities at stage 5 of the updated project and programme activity cycle;*
- (k) *Requests the Secretariat to inform the Board at each Board meeting on the status of funding proposals that either the Secretariat or the independent Technical Advisory Panel do not recommend for approval and do not submit to the Board;*
- (l) *Also requests the Secretariat to develop and publish clear timelines for its assessment of funding proposals to ensure timely consideration of funding proposals by the Secretariat, the independent Technical Advisory Panel and the Board;*
- (m) *Further requests the Co-Chairs, in consultation with the Board, to explore options for the timely consideration of funding proposals between Board meetings;*
- (n) *Decides to update the project and programme activity cycle as contained in annex IV;*
- (o) *Requests the Secretariat to define the nature, scope and extent of second-level due diligence and submit the same to the Board for its consideration no later than April 2018; and*
- (p) *Also requests the Secretariat to develop an interim restructuring and cancellation policy, including further options for decision-making, for consideration by the Board no later than its eighteenth session, and a comprehensive restructuring and cancellation policy no later than April 2018.*

**(b) Status of the fulfilment of conditions associated with the approval of relevant funding proposals**

28. No decision was taken under this agenda item.

**(c) Matters arising from the informal discussions**

29. The Board took note of document GCF/B.17/19 titled "Strengthening and scaling up the GCF pipeline: establishing strategic programming priorities".

30. In relation to matters addressed during the informal working meeting related to strategic programming, the Co-Chairs will consult on the matter with a view to presenting at the eighteenth meeting of the Board.

31. The Board adopted the following decision:

*DECISION B.17/10*

*The Board, having considered the document GCF/B.17/19 titled "Strengthening and scaling up the GCF pipeline: establishing strategic programming priorities":*

- (a) *Reaffirms the elements of funding proposal eligibility criteria embedded in previous decisions, including those related to the results management framework, the investment framework, country ownership, and engagement with nationally designated authorities, focal points and accredited entities;*
- (b) *Requests the Secretariat, under the guidance of Co-Chairs, to develop a mapping document that identifies all elements related to project and programme eligibility and selection criteria included in previous decisions, conditions imposed by the Board on funding proposals, and the Governing Instrument for the GCF that can contribute to strengthening the eligibility criteria of the GCF, and present this for the Board's consideration at its eighteenth meeting as part of the ongoing process to simplify and clarify project and programme eligibility and selection criteria and update the policies and procedures of the GCF;*
- (c) *Also requests the Secretariat, under the guidance of the Co-Chairs, to develop a proposal for the Board's consideration at its nineteenth meeting, taking into account best practices from other multilateral funds and other approaches, to address the following:*
  - (i) *The development and application of an incremental cost calculation methodology and/or alternative methodologies, as appropriate;*
  - (ii) *Guidance on the approach and scope for providing support to adaptation activities;*
  - (iii) *A policy on co-financing; and*
  - (iv) *Options for further guidance on concessionality, building on related work; and*
- (d) *Reaffirms the importance of the following ongoing work of the Board that will contribute to providing policy guidance in the development of funding proposals:*
  - (i) *Reviews of the financial terms and conditions of GCF financial instruments;*
  - (ii) *Indicative minimum benchmarks; and*
  - (iii) *Risk management framework.*

## **Agenda item 16: GCF risk management framework**

32. The Board took note of document GCF/B.17/12 titled "GCF risk management framework: Risk Management Committee proposal".

33. The Board adopted the following decision:

### *DECISION B.17/11*

*The Board, having reviewed document GCF/B.17/12 titled "GCF risk management framework: Risk Management Committee proposal":*

- (a) *Adopts the first set of components of the risk management framework as contained in annexes V to VIII to this document as follows:*
  - (i) *Risk management framework component I – revised risk register, as set out in annex V;*
  - (ii) *Risk management framework component II – risk appetite statement, as set out in annex VI;*
  - (iii) *Risk management framework component III – risk dashboard, as set out in annex VII;*

- (iv) *Risk management framework component IV – “Risk guidelines for funding proposals”, as set out in annex VIII;*
- (b) Agrees that the:
- (i) *Risk management framework component I – revised risk register referred to in paragraph (a) (i) above replaces the risk register adopted through decision B.12/34;*
- (ii) *Risk management framework component II – risk appetite statement referred to in paragraph (a) (ii) above replaces the risk appetite methodology adopted pursuant to decision B.10/08 and contained in annex XXIV to decision B.10/08 (annex XXIV to document GCF/B.10/17);*
- (iii) *Risk management framework component III – risk dashboard referred to in paragraph (a) (iii) above replaces the risk dashboard adopted pursuant to decision B.10/08 and contained in annex XXIII to decision B.10/08 (annex XXIII to document GCF/B.10/17);*
- (iv) *Risk management framework component IV – “Risk guidelines for funding proposals” referred to in paragraph (a) (iv) above replaces the “Interim risk and investment guidelines for the public sector” and “Interim risk and investment guidelines for the private sector” adopted pursuant to decision B.13/36 and contained in annexes VIII and IX, respectively, to decision B.13/36 (annexes VIII and IX to document GCF/B.13/32/Rev.01);*
- (c) Notes that the first set of components of the risk management framework as contained in annexes V to VIII complements the financial risk management framework adopted pursuant to decision B.07/05;
- (d) Takes note of the proposed preliminary risk dashboard in annex VII; and requests the Secretariat to further develop the risk dashboard and the underlying methodologies for consideration by the Board at its eighteenth meeting; the risk dashboard will be published every quarter thereafter;
- (e) Takes note of the risk rating approach as set out in annex IX;
- (f) Requests the Secretariat to continue with the development of appropriate risk rating models with the support from an external professional service provider and in consultation with the Risk Management Committee and present the risk rating models for consideration by the Board at its nineteenth meeting; and
- (g) Also requests the Secretariat to continue with the development of the risk management framework and its remaining components in consultation with the Risk Management Committee and present these for consideration of the Board at its eighteenth meeting.

## **Agenda item 17: Performance management agreements for Board-appointed officials**

34. The Board adopted the following decision:

### *DECISION B.17/12*

*The Board:*

- (a) Decides to adopt the Performance criteria and measurement procedures for the Executive Director as presented in annex X; and
- (b) Agrees to use the table as presented in annex X as a template for all Board-appointed officials for their performance framework.

## Agenda item 18: Matters related to accreditation

### (a) Consideration of accreditation proposals

35. The Board took note of document GCF/B.17/05 titled “Consideration of accreditation proposals”.

36. The Board adopted the following decision:

#### *DECISION B.17/13*

*The Board, having considered document GCF/B.17/05 titled “Consideration of accreditation proposals”:*

- (a) *Takes note with appreciation the assessments conducted by the Secretariat and the Accreditation Panel contained in the relevant annexes for the following applicants:*
- (i) *Applicant 050 (APL050) is CDG Capital S.A. (CDG Capital), based in Morocco, as contained in annex XI;*
  - (ii) *Applicant 051 (APL051) is Infrastructure Development Company Limited (IDCOL), based in Bangladesh, as contained in annex XII;*
  - (iii) *Applicant 052 (APL052) is the Small Industries Development Bank of India (SIDBI), based in India, as contained in annex XIII;*
  - (iv) *Applicant 053 (APL053) is the Micronesia Conservation Trust (MCT), based in Micronesia (Federated States of), as contained in annex XIV;*
  - (v) *Applicant 054 (APL054) is the Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU), headquartered in Japan, as contained in annex XV; and*
  - (vi) *Applicant 055 (APL055) is the Japan International Cooperation Agency (JICA) headquartered in Japan, as contained in annex XVI;*
- (b) *Accredits applicants APL050, APL051, APL052, APL053, APL054 and APL055 pursuant to paragraph 45 of the Governing Instrument for the GCF, subject to and in accordance with the assessments by the Accreditation Panel contained in the relevant annexes for each of the applicants. A summary of the recommended accreditation types and conditions and/or remarks, if any, for each applicant is contained in annex XVII;*
- (c) *Takes note, pursuant to decision B.08/03, paragraph (k), that the Secretariat, in consultation with the Accreditation Panel, is proposing that eligibility to apply under the fast-track accreditation process be extended to those entities listed in annex XVIII; and*
- (d) *Decides that those entities referred to in annex XVIII are also eligible to apply under the fast-track accreditation process for the standards of the GCF, in accordance with decision B.08/03, paragraph (f) for entities accredited by the Adaptation Fund and decision B.08/03, paragraph (g) for entities accredited by the Directorate-General for International Development and Cooperation.*

### (b) Accreditation policy matters

37. The Board took note of document GCF/B.17/Inf.10 titled “Matters related to accreditation framework and policy: Report of the Accreditation Committee”.

38. The Board adopted the following decision:

*DECISION B.17/14*

*The Board:*

*Requests the Co-Chairs to undertake consultations with members and alternate members of the Board in relation to decision B.13/28, paragraph (b), and decision B.14/08, paragraph (c), and present a proposal on matters related to the accreditation framework and policy gaps for consideration by the Board at its eighteenth meeting.*

**(c) Accreditation master agreements**

39. The Board took note of the information provided in limited distribution document GCF/B.17/Inf.05 titled, "Status of accreditation master agreements and funded activity agreements", limited distribution document GCF/B.17/15 titled, "Approval of the accreditation master agreement agreed with Conservation International Foundation", and document GCF/B.17/20 titled "Extension of the deadline for the fulfilment of conditions for FP038 and FP044, related to the execution of accreditation master agreements".

40. The Board adopted the following decisions:

*DECISION B.17/15*

*The Board, having considered document GCF/B.17/Inf.05 titled "Status of accreditation master agreements and funded activity agreements":*

*Requests the Secretariat to report at the eighteenth meeting of the Board the details of the substance and nature of outstanding issues preventing the signature of accreditation master agreements.*

*DECISION B.17/16*

*The Board, having reviewed document GCF/B.17/15 titled "Approval of the accreditation master agreement agreed with Conservation International Foundation":*

- (a) *Takes note of the text of the accreditation master agreement agreed with Conservation International Foundation, as contained in annex XIX, which marks the changes against the template accreditation master agreement;*
- (b) *Approves the substantive change in the accreditation master agreement agreed with Conservation International Foundation from the template accreditation master agreement as set out in annex XIX;*
- (c) *Authorizes the Executive Director to negotiate changes, which are in substance similar to those contained in the accreditation master agreement agreed with Conservation International Foundation, to the accreditation master agreement to be entered into with other institutions whose structure, object and purpose is similar to that of Conservation International Foundation without requiring further Board approval in respect of such changes; and*
- (d) *Authorizes the Secretariat to finalize the negotiation of the third party liability cap with respect to the part of the funded activity to be implemented by Conservation International Foundation under FP026.*

*DECISION B.17/17*

*The Board, having considered document GCF/B.17/20 titled "Extension of the deadline for fulfilment of conditions for FP038 and FP044, related to the execution of accreditation master agreements":*

- (a) *Recalls that funding proposals FP038 and FP044 were approved by decision B.16/02, subject to a condition that the relevant accredited entity execute an accreditation master agreement with the GCF, in a form and substance satisfactory to the GCF, within 120 days of Board approval;*
- (b) *Recognizes that absent an extension of time, decision B.16/02, in relation to FP038 and FP044, will lapse if an accreditation master agreement is not entered into with the relevant accredited entity by 4 August 2017;*
- (c) *Decides to extend the deadline by an additional 120 days starting on 4 August 2017 for the fulfilment of the condition relating to the execution of an accreditation master agreement with the GCF, with respect to the following funding proposals:*
- (i) *FP038 (European Investment Bank (EIB) and Global Energy Efficiency and Renewable Energy Fund NeXt (GEEREF NeXt)); and*
- (ii) *FP044 (World Bank and Solomon Islands); and*
- (d) *Requests the Secretariat to inform all national designated authorities of the risks involved in supporting a project or programme being proposed to the GCF by an accredited entity that has not signed an accreditation master agreement with the GCF.*

## **Agenda item 19: Matters related to support for REDD-plus**

### **(a) REDD-plus results-based payments**

41. The Board took note of document GCF/B.17/13 titled “Pilot Programme for REDD+ Results-based Payments”.
42. The Board adopted the following decision:

#### *DECISION B.17/18*

*The Board, having considered document GCF/B.17/13 titled “Pilot programme for REDD-plus results-based payments”:*

- (a) *Takes note of the progress made in preparing the draft request for proposals for the pilot programme for REDD-plus results-based payments, as mandated in decision B.14/03, and the related draft scorecard in the form set out in annex II and annex III to document GCF/B.17/13;*
- (b) *Requests the Secretariat to undertake a further analysis of existing GCF policies and procedures adopted by the Board and reflect in the draft request for proposals referred to in paragraph (c) below the manner in which such policies and procedures would need to be applied or otherwise considered in order to operationalize GCF REDD-plus results-based payments proposals; and*
- (c) *Also requests the Secretariat to finalize the draft request for proposals for the pilot programme for REDD-plus results-based payments and the related draft scorecard in the light of the final analysis referred in paragraph (b) above and the discussions of the Board at its seventeenth meeting on this matter and present it to the Board for its consideration at its eighteenth meeting.*

### **(b) Further guidance for national designated authorities and focal points on how to engage with the GCF in the early phases of REDD-plus**

43. The Board took note of document GCF/B.17/16 titled “Green Climate Fund support for early phases of REDD-plus”.

44. The Board adopted the following decision:

*DECISION B.17/19*

*The Board, having considered document GCF/B.17/16 titled “Green Climate Fund support for early phases of REDD-plus”:*

- (a) *Takes note of the document provided to support efforts by national designated authorities and focal points to engage with the GCF in the early phases of REDD-plus using existing modalities, tools and programmes, and seeking complementarity and coherence for REDD-plus finance with other funds and initiatives;*
- (b) *Encourages national designated authorities and focal points to access readiness support directly, or to collaborate with readiness delivery partners and accredited entities to submit readiness requests, for the early phases of REDD-plus, using the existing modalities for accessing readiness and preparatory support;*
- (c) *Also encourages national designated authorities and focal points to collaborate with accredited entities to submit concept notes, Project Preparation Facility requests and funding proposals that will facilitate support for the early phases of REDD-plus; and*
- (d) *Requests the Secretariat to prepare appropriate communication material in order to facilitate access to the information presented in document GCF/B.17/16 and update the information provided in the light of future decisions when needed.*

## **Agenda item 20: Status of resources**

45. The Board took note of document GCF/B.17/Inf.04 titled “Status of the Initial Resource Mobilization process”.

## **Agenda item 21: Issues related to the status of the staffing of the Secretariat**

46. The Board took note of document GCF/B.17/Inf.03 titled “Report on the status of the staffing of the Secretariat”.

47. The Board adopted the following decision:

*DECISION B.17/20*

*The Board:*

*Expresses support for the proposal by the Executive Director for the position of a Deputy Executive Director.*

## **Agenda item 22: Country ownership guidelines**

48. The Board took note of GCF/B.17/14 titled “Guidelines for enhanced country ownership and country drivenness”.

49. The Board adopted the following decision:

*DECISION B.17/21*

*The Board, having considered document GCF/B.17/14 titled “Guidelines for enhanced country ownership and country drivenness”:*

- (a) *Adopts the guidelines for enhanced country ownership and country drivenness contained*

*in annex XX to this document;*

- (b) *Requests the Secretariat, accredited entities, delivery partners and national designated authorities/focal points to follow these guidelines;*
- (c) *Also requests the Secretariat to assess annually the experiences gathered from the application of these guidelines and to continue to improve the guidelines based on lessons learned and observations from current best practices; and*
- (d) *Decides to undertake a review of the implementation of these guidelines as needed, or at least every two years.*

### **Agenda item 23: Report on the execution of the administrative budget and 2016 audited financial statements**

50. The Board took note of document GCF/B.17/06 titled “Report on the execution of the 2017 administrative budget of the GCF as at 31 May 2017” and document GCF/B.17/07 titled “Audited financial statements of the Green Climate Fund for the year ended 31 December 2016”.

51. The Board adopted the following decisions:

#### *DECISION B.17/22*

*The Board, having considered document GCF/B.17/06 titled “Report on the execution of the 2017 administrative budget of the GCF as at 31 May 2017”:*

*Takes note of document GCF/B.17/06.*

#### *DECISION B.17/23*

*The Board, having considered document GCF/B.17/07 titled “Audited financial statements of the Green Climate Fund for the year ended 31 December 2016”:*

*Approves the audited financial statements of the GCF for the year ended 31 December 2016 as contained in annex XXI.*

### **Agenda item 24: Policy on ethics and conflicts of interest for active observers of the Green Climate Fund**

52. The Board took note of document GCF/B.17/17 titled “Policy on ethics and conflicts of interest for active observers of the Green Climate Fund”.

53. No decision was taken under this agenda item.

### **Agenda item 25: Dates and venues of the following meetings of the Board**

54. The Board took note of document GCF/B.17/04 titled “Date and venue of the following meetings of the Board”.

55. The Board adopted the following decision:

#### *DECISION B.17/24*

*The Board, having reviewed document GCF/B.17/04 titled “Date and venue of the following meeting of the Board”:*

- (a) *Decides that the eighteenth meeting of the Board will take place in Cairo, Arab Republic of Egypt, from Saturday, 30 September to Monday, 2 October 2017;*
- (b) *Also decides that the nineteenth meeting of the Board will take place from Tuesday, 27 February to Thursday, 1 March 2018 in Songdo, Republic of Korea;*
- (c) *Recommends that the Secretariat propose, at the second Board meeting of each calendar year, the schedule of Board meetings for the following calendar year, with this process to begin at the twentieth Board meeting;*
- (d) *Requests the Secretariat, in presenting the indicative schedule of Board meetings, to take into account all official United Nations holidays, including both fixed and floating holidays.*

## **Agenda item 26: Other matters**

56. No decision was taken under this agenda item.

## **Agenda item 27: Report of the meeting**

57. The decisions as adopted and their corresponding annexes are included in this document.

## **Agenda item 28: Close of the meeting**

58. The meeting was closed on Thursday, 6 July 2017 at 6 p.m.

## Annex I: Updated work plan of the Board for 2017

Issue	B.16	B.17	B.18
<b>Strategies and plans</b>			
Work plan for 2017		Circulation of an updated 2017 work plan incorporating B.16 decisions	Adoption of a work plan for 2018
Strategic plan for the GCF (decisions B.11/03 and B.12/20)	Provide a progress report on the implementation of the strategic plan (decision B.12/20, para. (d))	<ul style="list-style-type: none"> <li>Consideration of the decision on the frequency of reporting for the Strategic Plan (matter outstanding from B.16, relating to decision B.12/20, para. (d))</li> <li>Update on country and entity work programmes</li> </ul>	Provide a progress report on the implementation of the strategic plan (decision B.12/20, para. (d))
Strategy on accreditation (decision B.10/06, para. (r), decision B.12/21, and decision B.13/19, para. (b));		<ul style="list-style-type: none"> <li>Consideration of matters related to the accreditation framework and policy, including</li> <li>An update on the strategy on accreditation (decision B.14/08, para. (b))</li> </ul>	Accreditation strategy: consideration of matters related to the accreditation framework and policy
Communications strategy (decision B.01-13/05, para (c), and decision B.04/14, para. (c), B.13/25, para. (f))			Presentation of a communications strategy for adoption (decision B.13/25, para. (f))
<b>Governance – Guidance from COP</b>			
COP guidance and reports (Governing Instrument for the GCF, paras. 6(a-c))	Update on progress in addressing COP 22 guidance (decision B.15/03)	Approve the sixth GCF report to the COP, including the biennial report on privileges and immunities (report to address mandates in decision B.13/11, para. (a), and decision B.15/03, paras (d), (f), (h))	
Complementarity and coherence, (decision B.12/07, para. (a), and decision B.13/12, para. (a), and decision B.13/05, B.BM-2017/02)		The presentation of an operational framework on complementarity and coherence (decision B.13/12, para. (a))	The presentation of options for the operationalization of the key elements of the operational framework on

Issue	B.16	B.17	B.18
			<p>complementarity and coherence (decision B.13/12, para. (c))</p> <p><i>[The first annual dialogue with climate finance delivery channels proposed to commence in the margins of B.18]</i></p>
<p>Technology-related matters (decision B.12/07, para. (b))</p>			<ul style="list-style-type: none"> <li>• Presentation of recommendations on further steps to enhance cooperation and coherence with the Technology Mechanism (decision B.14/02, para. (d)); and</li> <li>• Consider options for GCF support for collaborative research and development in developing countries (decision B.14/02, para. (f))</li> </ul>
<p>Results-based payments for REDD-plus (decision B.12/07, para. (d))</p>	<p>Update on work regarding support for REDD-plus</p>	<p>The presentation of:</p> <ul style="list-style-type: none"> <li>• An RfP for REDD-plus results-based payments; and</li> <li>• Further guidance for NDAs and focal points on how to engage with the GCF in the early phases of REDD-plus</li> </ul> <p>(decision B.14/03, para. (b))</p>	<p>Any follow-up matters after the adoption of the REDD-plus RfP and guidance for NDAs and focal points on how to engage with the GCF in the early phases of REDD-plus</p>
<p>Alternative policy approaches (decision B.12/07, para. (e))</p>			
<p>Mobilization of private sector finance to progress GCF forestry-related results areas (decision B.12/07, para. (f), B.BM-2017/02)</p>			
<p>Increasing proposals from direct access entities in the pipeline (decision B.15/03)</p>	<p>Presentation of actions being taken to facilitate an increase in proposals from direct access entities in the pipeline</p>	<p>Consideration of actions to be taken by the Board in order to facilitate an increase in proposals from direct access entities in the pipeline:</p>	
<p><b>Governance – committees, panels and groups</b></p>			

Issue	B.16	B.17	B.18
Committees, panels and groups (annexes XVI-XIX to decision B.05/13 (annexes XVI-XIX to document GCF/B.05/23))		<ul style="list-style-type: none"> <li>To include Ethics and Audit Committee recommendations on various matters regarding conflicts of interest of persons engaged with the GCF (Document GCF/B.16/23, para.8)</li> <li>Presentation of work programmes of committees and panels that include actions outlined in the strategic plan (decision B.12/20, para. (f), B.BM-2017/02)</li> </ul>	<ul style="list-style-type: none"> <li>Presentation of ToRs for the review of committees, panels and groups, to be followed by a review of committees, panels and groups</li> </ul>
Code of conduct for the Accreditation Panel (decision B.07/02, annex V, para. 14 (document GCF/B.07/11, annex V, para. 14))	Co-Chairs provide a progress report in the report of the Co-Chairs	Co-Chairs provide a progress report in the report of the Co-Chairs	
Establishment of an appointment committee as a standing committee (decision B.12/08 and decision B.15/02 (a))	Co-Chairs provide a progress report in the report of the Co-Chairs	Co-Chairs provide a progress report in the report of the Co-Chairs	Co-Chairs provide a progress report in the report of the Co-Chairs
Review of the iTAP (Decisions B.10/09, para. (d) and B.15/06 para. (c), and Decision B.09/10, annex XII)			<ul style="list-style-type: none"> <li>Presentation of findings of the review of the structure and effectiveness of the independent Technical Advisory panel (decisions B.10/09, para. (d), B.14/01, para. (h) and B.15/06 para. (c)); and</li> <li>Adoption of ToRs for the performance review of the iTAP members (Decision B.09/10, annex XII), to be followed by a presentation of findings of the performance review of iTAP members; and</li> <li>Matters related to the appointment of iTAP members</li> </ul>

Issue	B.16	B.17	B.18
Review of the Accreditation Panel (Decision B.07/02, annex V, and decision B.BM-2017/03)	Adoption of the terms of references for the review of the accreditation panel members		Presentation of findings of the performance review of the Accreditation Panel (decision B.BM-2017/03);
<b>Governance – Board procedures and observers</b>			
Decision-making in the absence of consensus (decision B.12/11 and decision B.15/02 (a))		Co-Chairs provide a progress report in the report of the Co-Chairs	Co-Chairs provide a progress report in the report of the Co-Chairs
Decision-making without a Board meeting (decision B.12/12 and decision B.15/02 (a))		Co-Chairs provide a progress report in the report of the Co-Chairs	Co-Chairs provide a progress report in the report of the Co-Chairs
Participation of observers (decision B.01-13/03, annex XII, para. 17 (document GCF/B.01-13/12, annex XII, para. 17), decision B.05/23, para. (b), decision B.BM-2016/11 decision B.13/27, para. (b) and B.BM-2017/02)		Presentation of policies on ethics and conflicts of interests for active observers (decision B.13/27, para. (b))	Presentation of the outcomes of the review of guidelines on observer participation (decision B.BM-2016/11, B.BM-2017/02); and
<b>Governance – Permanent Trustee selection</b>			
Competitive process for the selection of the Permanent Trustee (decision B.08/22, para. (b) and decision B.15/08 para. (a), B.16/05, annex II)	Adoption of terms of reference of the ad hoc Trustee Selection Committee	Presentation of: <ul style="list-style-type: none"> <li>• The terms of reference for the Permanent Trustee;</li> <li>• Selection process and criteria, and timeframe; and</li> <li>• Approval of the announcement of the open, transparent and competitive process (B.16/05, annex II)</li> </ul>	Presentation of the recommended final nominee to the Board for its decision (B.16/05, annex II)
<b>Board-appointed officials</b>			

Issue	B.16	B.17	B.18
Executive Director of the independent Secretariat (decision B.12/22, para. (f), B.14/05)		Presentation of the performance criteria and measurement procedures (decision B.14/05)	
Heads of the Accountability Units (decision B.10/05, para. (j))			Presentation of the performance management framework of the Heads of the Units
<b>Review of Board processes and policies</b>			
Risk management framework (decisions B.12/34, B.13/36, para. (a), B.14/01, para. (c) and B.BM-2017/02)	Update on matters related to risk	Consideration of matters related to the GCF risk management framework, (decision B.12/34, decision B.13/36, para. (a), and decision B.14/01, para. (c))	<ul style="list-style-type: none"> <li>• Update on matters related to risk;</li> <li>• Presentation of updated risk policies and the grant equivalent calculator (decision B.12/34)</li> </ul>
Initial investment framework: annual review of the financial terms and conditions of the GCF's financial instruments			Adopt a decision on the annual review of financial terms and conditions of the GCF financial instruments (decision B.15/05, para. (b))
Initial investment framework: high-level and low-level concessional terms for the public sector (decisions B.12/17, para. (b), and para. (a), and B.BM-2017/02)			Adopt a decision on the cases in which high-level and low-level concessional terms for the public sector will apply (decision B.12/17, para. (a))
Initial investment framework: indicative minimum benchmarks			Presentation of a proposal on indicative minimum benchmarks (decision B.13/02) (Investment Committee)
Policy matters related to the approval of funding proposals (PAP: Decision B.11/11, para. (j), (SAP: Decisions B.12/10 and (B.14/01 (l)) (B.15 FP policy matters: (decision B.15/07 para. (k))	<ul style="list-style-type: none"> <li>• Update on:               <ul style="list-style-type: none"> <li>○ The update and the review of the initial proposal approval process;</li> <li>○ The simplified process for approval of proposals for certain activities, in particular for small-scale activities</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Conclusion of the update and review of the initial proposal approval process (Decision B.11/11, para. (j));</li> <li>• Status of the fulfilment of conditions on relevant approved projects (decision B.14/07, paras. (i) and (j))</li> </ul>	

Issue	B.16	B.17	B.18
	<ul style="list-style-type: none"> <li>○ Policy guidelines on programmatic approach</li> <li>● Adoption of the list of policy matters arising from the consideration of funding proposals at B.15</li> </ul>	<p>Matters arising from the informal Board discussions. The Board is to consider the way forward on:</p> <ul style="list-style-type: none"> <li>● Consideration of a proposal to address the list of policy matters arising from the consideration of funding proposals at B.15 (decision B.15/07 para. (k)); and</li> <li>● Simplified process for approval of proposals for certain activities, in particular for small-scale activities (Decisions B.12/10 and (B.14/01 (l))</li> <li>● Consideration of recommendations on needed actions to align the GCF portfolio composition with the initial results management framework as contained in decision B.07/04 (decision B.09/02, para. (b))</li> </ul>	
<p>A mechanism to draw on appropriate scientific and technical advice (decision B.04/09, para. (d), and decision B.14/07, para. (o))</p>			<p>Presentations of options for a mechanism to draw on appropriate scientific and technical advice (decision B.14/07, para. (o))</p>
<p>GCF Gender policy and Gender action plan (decisions B.09/11 B.12/16, B.14/01, para. (g), B.BM-2017/02)</p>	<p>Update on actions taken to include gender considerations in the activities of the fund in the report of the Secretariat</p>	<p>Update on actions taken to include gender considerations in the activities of the fund in the report of the Secretariat</p>	<p>Presentation of findings of the review of the Gender policy and Gender action plan</p>
<p>Information disclosure policy (decision B.12/35)</p>			<ul style="list-style-type: none"> <li>● Approval of the modalities for the qualitative and quantitative review of the webcasting service (decision B.12/35, para (f))</li> <li>● Establishment of the independent appeals panel (decision B.12/35, annex XXIX, para.28)</li> </ul>

Issue	B.16	B.17	B.18
			<ul style="list-style-type: none"> <li>• Presentation of recommendations on the review of the relevant disclosure requirements once the environmental and social management system is developed (decision B.12/35, para. (b))</li> </ul>
Travel policy (decision B.01-13/02, para. (e), decision B.12/13, and decision B.15/02 para. (a))	Report on the Co-Chairs' consultations in the report of the Co-Chairs	Report on the Co-Chairs' consultations in the report of the Co-Chairs	Report on the Co-Chairs' consultations in the report of the Co-Chairs
Co-financing arrangements with other financial institutions (decision B.13/05, and decision B.15/02)	Report on the Co-Chairs' consultations on co-financing arrangements in the report of the Co-Chairs	Report on the Co-Chairs' consultations on co-financing arrangements in the report of the Co-Chairs	Report on the Co-Chairs' consultations on co-financing arrangements in the report of the Co-Chairs
Fund-wide Indigenous peoples' policy (decision B.15/01)			Presentation of a GCF Indigenous Peoples' Policy
<b>Approvals</b>			
Funding proposals	<ul style="list-style-type: none"> <li>• Consideration of funding proposals; and</li> <li>• Status of the fulfilment of conditions on relevant approved projects (decision B.14/07, paras. (i) and (j))</li> </ul>	Status of the GCF Portfolio and approved projects, including	Consideration of funding proposals
Private sector MSME pilot programme	Approval of proposals		<ul style="list-style-type: none"> <li>• Approval of proposals</li> <li>• Presentation of ToR for request(s) for proposals for the remainder of the allocation for the MSME pilot programme (decision B.13/22, para. (f))</li> </ul>
Mobilizing funding at scale pilot programme (decisions B.10/11, B.09/09 and B.13/04)	Presentation of an RfP for the mobilizing of funding at scale pilot programme		
Modalities that enhance direct access pilot programme (decision B.10/04, paras. (d) and (e))	Approval of proposals		Approval of proposals

Issue	B.16	B.17	B.18
Project Preparation Facility (decision B.12/25)	Status report on the PPF requests received as part of the activities of the Secretariat report (decision B.13/21, para. (d)(ix))	Status report on the PPF requests received as part of activities of the Secretariat report (decision B.13/21, para. (d)(ix))	Status report on the PPF requests received as part of activities of the Secretariat report (decision B.13/21, para. (d)(ix))
Completion of the initial approvals process (decision B.07/03)			Policy for cancellation and termination (decision B.07/03, para. (e))
Performance measurement frameworks (decision B.08/07, para. (b) and decision B.13/34)			Further development of some indicators in the performance measurement frameworks
<b>Accreditation</b>			
Accreditation of entities		Consideration of proposals to accredit entities	Consideration of proposals to accredit entities
Legal and formal arrangements with accredited entities	Status of the AMAs	Status of the AMAs	Status of the AMAs
Accreditation review of applicant 026		Recommendations of the Accreditation Panel in accordance with decision B.12/30, paragraph (f)	
Initial fiduciary standards (decision B.07/02, decision B.12/31, para. (i), and decision B.14/08, para. (f))		<p>Presentation of policies relating to prohibited practices, anti-money laundering and countering the financing of terrorism (decision B.12/31, para. (i), and decision B.14/01, para (e)) (independent Integrity Unit). These include:</p> <ul style="list-style-type: none"> <li>• KYC policy to prevent and combat money laundering and terrorist financing;</li> <li>• Administrative disclosure and declaration of interest statements</li> <li>• Policy on prohibited practices</li> </ul>	<ul style="list-style-type: none"> <li>• Integration of policies relating to prohibited practices, anti-money laundering and countering the financing of terrorism in the interim fiduciary standards (decision B.14/01, para. (f)) (Accreditation Committee and independent Integrity Unit)</li> <li>• Commencement of the review of the initial fiduciary standards (decision B.14/08, para. (f))</li> </ul>

<b>Issue</b>	<b>B.16</b>	<b>B.17</b>	<b>B.18</b>
Environmental and social management system (decision B.07/02, para. (n))	Report on progress under the report on the activities of the Secretariat	Report on progress under the report on the activities of the Secretariat	Presentation of the environmental and social management system
Policy on fees for accredited entities (decision B.11/10, para. (f), B.BM-2017/02)			Revised policy on fees for accredited entities
Fast-tracking of entities			Presentation of method and criteria for the prioritization of entities applying for accreditation (decision B.14/08, para. (d)(ii))
Modalities for the use of third-party evidence in the accreditation process (decision B.14/08, para. (e)(i))			Presentation of modalities for the use of third-party evidence in the accreditation process (decision B.14/08, para. (e))
Assessment of the Adaptation Fund's environmental and social policy and gender policy and recommendations (decision B.14/08, para. (e)(iii))			Presentation of findings of the assessment, including a gap analysis of the Adaptation Fund's environmental and social policy and gender policy and recommendations on potential accreditation and fast-tracking (decision B.14/08, para. (e)(iii))
<b>Country programming and readiness</b>			
Implementation of the Readiness and Preparatory Support Programme (decisions B.06/11 (f) and B.16/01, para. (c))	Presentation of the progress report	<ul style="list-style-type: none"> <li>• Readiness Programme progress and outlook report (decision B.06/11 (f))</li> <li>• Presentation of a detailed and updated work plan for the Readiness and Preparatory Support Programme (B.16/01, para. (c))</li> </ul>	Progress report on the implementation of Readiness work programme, including the updated readiness work plan (decision B.06/11 (f), B.16/01, para. (c))
	Status of NAP requests (decision B.13/09, para. (k))	Status of NAP requests (decision B.13/09, para. (k))	Status of NAP requests (decision B.13/09, para. (k))
Independent evaluation of the Readiness and Preparatory		Consideration of the ToR for the independent evaluation of the Readiness	Presentation of the results of the independent evaluation of the Readiness

Issue	B.16	B.17	B.18
Support Programme (decision B.08/11, para. (j), and decision B.13/03)		and Preparatory Support Programme (decision B.13/03 and decision B.15/04 para (c))	and Preparatory Support Programme and Board decisions taken (decision B.08/11, para. (j), and decision B.13/03, and decision B.15/04 para(b))
Country ownership guidelines (decision B.10/10, para. (d) and decision B.14/06)		Presentation of country ownership guidelines	
<b>Private sector matters</b>			
Private sector matters (decision B.13/05, para. (c), and para. (d), and B.BM-2017/02)		<ul style="list-style-type: none"> <li>• Presentation of results from an analysis of barriers to crowding-in and maximizing the engagement of the private sector (decision B.13/05, para. (c), B.BM-2017/02)</li> <li>• Presentation of PSAG recommendations on barriers to crowding-in and maximizing the engagement of the private (decision B.13/05, para. (c), B.BM-2017/02)</li> </ul>	Presentation of PSAG recommendations on the development of a private sector outreach plan (decision B.13/05, para. (d), B.BM-2017/02)
<b>Resource mobilization</b>			
Status of the Initial Resource Mobilization	Progress report	Progress report	Progress report
First formal replenishment process of the GCF (decision B.12/09)		Status update on the implementation of decision B.12/09 in the report on the activities of the Co-Chairs	Presentation of policies on the formal replenishment process
Policies and procedures for contributions from philanthropic foundations and other non-public and alternative sources (decision B.08/13, annex XIX, paras. 5-7 (document GCF/B.08/45, annex XIX, paras. 5-7) and decision B.11/05, para. (d))			

Issue	B.16	B.17	B.18
<b>Independent accountability units</b>			
Independent Integrity Unit		Presentation of fiduciary compliance and integrity policies as per the workplan of the IIU approved at B.15 (decision B.12/31, para. (i), decision B.14/01, para. (e), decision B.15/13), including: <ul style="list-style-type: none"> <li>• the whistle blower and witness protection policy; and</li> <li>• the integrity due diligence policy for the private sector</li> </ul>	Other follow-up matters as per the work plan of the IIU approved at B.15
Independent Evaluation Unit	Approval of the interim work programme and budget of the IEU	Approval of the interim work programme and budget of the IEU	<ul style="list-style-type: none"> <li>• Approval of a complete work plan and budget of the IEU for 2018</li> <li>• Approval of the Evaluation policy and three-year rolling evaluation work plans (decision B.06/09, annex III, para. 5 (annex III to document GCF/B.06/18, annex III, para. 5))</li> </ul>
Independent Redress Mechanism	Presentation of revised terms of reference for the independent Redress Mechanism (decision B.13/24 para (e), decision B.15/12 para (c))		<ul style="list-style-type: none"> <li>• Approval of the revised terms of reference for the independent Redress Mechanism (decision B.13/24 para (e), decision B.15/12 para (c))</li> <li>• Presentation of the detailed guidelines and procedures of the independent Redress Mechanism (decision B.13/24, para. (b) and decision B.15/12 para. (d))</li> </ul>
<b>Administrative matters</b>			
Administrative guidelines			<ul style="list-style-type: none"> <li>• Revised administrative guidelines on human resources;</li> <li>• Presentation of reviewed administrative guidelines on procurement (decision B.12/39, para. (a));</li> </ul>

Issue	B.16	B.17	B.18
			<ul style="list-style-type: none"> <li>• Administrative guidelines on information and communication technology</li> </ul>
Work programme of the Secretariat and the Administrative budget	<ul style="list-style-type: none"> <li>• Presentation of a work programme of the Secretariat and an adjusted administrative budget for 2017 (decision B.15/</li> <li>• Report on the execution of the administrative budget</li> </ul>	<ul style="list-style-type: none"> <li>• Secretariat report on progress in implementing the Secretariat work programme for 2017</li> <li>• A report on the execution of the administrative budget for 2017</li> </ul>	<ul style="list-style-type: none"> <li>• Report on the execution of the administrative budget; and</li> <li>• Approval of the administrative budget and work programme of the Secretariat for 2018</li> </ul>
Financial statements	Presentation of 2016 unaudited financial statements	Presentation of 2016 audited financial statements (to be presented as part of the Secretariat report)	
Secretariat staffing	Status of staffing of the Secretariat	Issues related to the status of the staffing of the Secretariat	Consideration of the review of the structure and staffing of the Secretariat, including a proposal on Secretariat staffing for communications and outreach (decision B.13/25, para. (e))

*Abbreviations:* AMAs = accreditation master agreements, B.15-18 = fifteenth to eighteenth meetings of the Board, COP = Conference of the Parties to the United Nations Framework Convention on Climate Change, IEU = independent Evaluation Unit, IIU = independent Integrity Unit, MSME = micro-, small- and medium-sized enterprise, NDAs = national designated authorities, NAP = national adaptation plans, PPF = Project Preparation Facility, PSAG = Private Sector Advisory Group, RfP = request for proposal, ToR = terms of reference

## Annex II: Operational Framework for complementarity and coherence

### Purpose

The Operational Framework for complementarity and coherence (hereinafter referred as Operational Framework) operates in a diverse and evolving climate finance landscape. It seeks to strengthen complementarity and enhance coherence with regards to operations and processes across climate finance institutions. The Operational Framework may also incorporate other institutions when appropriate and as the work evolves. Its evolution requires collaboration with the other institutions.

The scope of the Operational Framework includes areas of relevance between the climate finance delivery channels and the GCF, as per the pillars described below, and it may evolve upon guidance from the Board.

The GCF Secretariat will report on outcomes and progress on the implementation of the Operational Framework to the Board once a year. An update on work under the Operational Framework is also to be included in the GCF report to the Conference of the Parties (COP), starting in 2018.

### Operational pillars

In decision B.13/08, the Board requested the Secretariat to prepare a document focusing on the following four pillars for operationalizing complementarity and coherence:

Pillar I. Board-level discussions on fund-to-fund arrangements

Pillar II. Enhanced complementarity at the activity level

Pillar III. Promotion of coherence at the national programming level; and

Pillar IV. Complementarity at the level of delivery of climate finance through an established dialogue

Each pillar is elaborated below, including where possible, potential complementary and coherence outcomes.

Complementarity and coherence between the funds can occur at the institutional level as well as at an operational level. In this context, the first pillar (Board-level discussions on fund-to-fund arrangements), is intended to tackle complementarity and coherence at a more fundamental institutional level, where changes to business models, governance structures or key policies may be required. The remaining pillars aim to address it at the operational level within existing institutional parameters of each institution.

#### *Pillar I: Board-level discussions on fund-to-fund arrangements*

Under this pillar boards/governing bodies of the various funds can explore and pursue opportunities for complementarity and coherence that might entail changes to their existing business models, governance structures and/or key policies. Overall, consideration by the Board on fund-to-fund arrangements could consider the comparative advantage of institutions to maximize impact, including co-financing (e.g. activities financed, use of financial instruments) and make arrangements to advance them.

Substantive matters that could fall under this pillar include:

Arrangements that commit one fund to provide co-financing to projects in another fund’s pipeline;  
 Adjustment of existing policies or processes in search of alignment;  
 Arrangements with implications on funding decisions to GCF resources; and  
 Arrangements which delegate programming authority to another fund.

In each case, the boards of the different funds will need to carefully consider the implications of any such arrangements on its existing business model, governance structure and key policies. For example, in the case of the GCF, the Board shall consider implications on its business model of working through accredited entities, the accreditation framework, the results management framework, the investment criteria, among others.

In particular, the governance bodies of the different funds will need to clearly identify whose policies (e.g., relating to prohibited practices or monitoring and reporting), will need to be applied to projects which have been funded pursuant to the types of arrangements that may be discussed under this pillar of the Operational Framework.

The form of the fund-to-fund arrangements shall be determined by the relevant boards once the substance of such arrangements has been discussed and agreed. The Board may also wish to consider inputs from the governance of other Funds as it undertakes discussions on arrangements.

*Pillar II: Enhanced complementarity at the activity level*

Under this pillar, the various funds should build upon synergies at the activity level in order to enhance complementarity and avoid inefficiency, where possible. Such complementarity shall occur at the operational level and within the existing business models and policies of the different funds.

Table 1 below sets out outcomes sought to be undertaken in collaboration with the different climate finance delivery channels to enhance complementarity at the activity level.

**Table 1. Enhancing complementarity at the activity level**

*Element 1: Readiness/capacity building*

Outcomes 2017-2018

- Exchange of information via operational coordination arrangements among climate finance delivery channels on readiness support
- Improvement of readiness support templates to foster complementarity
- Coordination through existing mechanisms, including joint activities, aimed at enhancing countries capacity to programme climate finance

*Element 2: Nationally determined contributions (NDCs), National Adaptation Plans (NAPs), National Communications (Nat Coms) and technology*

Outcomes 2017-2018

- Exchange of information and coordination in the support and pipeline for activities related to planning and reporting documents, such as NDCs, NAPs, Nat Coms, Transparency etc. Special consideration will be given to technology and complementarity with the Technology Mechanism of the UNFCCC
- Revision of support request templates to foster complementarity
- Coordination to avoid overlaps and maximize impact, and consider where possible collaboration in workshops and other activities with countries

### Element 3: Project preparatory support

- Outcomes Harmonization of policies related to project preparatory support to simplify access
- 2017-2018 Information sharing to avoid duplication of support for the same or overlapping proposals

### Element 4: Programming

- Outcomes Exchange experiences and identify opportunities to advance coherence of programming approaches, such as programmatic funding proposals
- 2017-2018 Identification of thematic synergies, such as REDD+, technology, etc, between project/programme portfolios
- Conduct in collaboration with national designated authorities (NDAs) and accredited entities (AEs) a country-specific landscape of climate finance to enhance coordination on pipelines
- Apply the lessons learned and best practices in order to improve enabling environments, including with regards to stakeholder engagement

### Element 5: Funding proposals

- Outcomes Synergies of existing policies and procedures related to the project cycle have been identified, including providing clarification of terms across landscape, where appropriate
- 2017-2018 Opportunities to enhance the use of resources during project review processes have been identified, including for scaling up successful experiences
- Information sharing between funds to identify and help assess similar or linked proposals from the same applicants (and to address forum shopping)
- Developing standardised advice to applicants regarding the options available at the climate finance delivery channels, if possible, which options are more suited to which type of proposal

### Element 6: Accreditation and work with entities

- Outcomes Identification of opportunities to fast track accreditation of entities, leveraging the work of other funds
- 2017-2018 Application of lessons learned and best practices across the accreditation process
- Collaboration with entities, including information sharing, with regards to other elements of the Operational Framework, such as on programming, capacity building, etc.

### Element 7: Private sector engagement

- Outcomes Identification of opportunities for enhance and coordinate outreach to private sector
- 2017-2018 Identification of options to maximize the use of financial instruments across the climate finance landscape
- Sharing information on new, innovative instruments and experiences, for example, drawing on the Request for Proposals for mobilising funds at scale

### Element 8: Policies and procedures

- Outcomes Exchange of experiences and identify possible steps to:
- 2017-2018 Streamline the implementation of environmental and social safeguards (ESS), fiduciary standards, monitoring and evaluation approaches

Harmonise methodologies, including on co-financing

c) Standardise indicative minimum benchmarks

exchange experiences and harmonize where possible the application policies related to accredited entities (AEs), including on fees, safeguards, etc.

#### Element 9: Knowledge management and sharing

Outcomes 2017-2018 Collaboration on enhancing knowledge management and sharing across different climate finance delivery channels

Integrate relevant lessons and best practices across different climate finance delivery channels into operations of the GCF, and share GCF lessons for similar consideration

#### Element 10: Work of the independent evaluation unit

Outcomes 2017-2018 i. Sharing of information, lessons learned and best practices and collaboration across different climate finance delivery channels

### *Pillar III: Promotion of coherence at the national programming level*

To promote greater coherence at the national level, the GCF and other funds need to consider country investment programmes, national policy frameworks and the work programmes of accredited/implementing entities/agencies. Table 2 below sets out those outcomes sought at the operational level within the business models and policies of the different funds, in each case, in close consultation with the relevant national authorities.

**Table. 2 Actions to promote coherence at the national programming level**

#### Element 1. Country programmes and country engagement

Outcomes 2017-2018 Coordination of country programming, investment planning and pipeline development between funds (e.g. national designated authorities (NDAs), Global Environment Facility Focal Points, CTCN National Designated Authorities, etc.).

Enhance sharing of information on support requests vis-à-vis national policies by NDAs and accredited entities (AEs)

Explore opportunities to maximize use of resources during project review formulation

#### Element 2: Policy frameworks

Outcomes 2017-2018 Exchange best practices and coordinate in the application of GCF country ownership guidelines

Climate finance delivery channels to coordinate financing of the national adaptation plans (NAPs), Technology Needs Assessment (TNAs), Nationally Appropriate Mitigation Actions (NAMAs), Measurement, Reporting and Verification (MRV), and so on, in consultation with the respective stakeholders

Collaboration between climate finance delivery channels to maximize engagement with AEs including direct access entities

#### Element 3: Country-driven coordination

**Table. 2 Actions to promote coherence at the national programming level**

Outcomes 2017-2018	<p>Enhanced channels for communication between different focal points (NDAs and other respective focal points under the different Funds within the country), where applicable</p> <p>Coordinate the development of GCF country programmes to utilize opportunities across the climate finance landscape as part of the process of engaging existing and prospective implementing entities to identify the practical steps that will enable implementation of the country's strategies with support from the GCF.</p> <p>Identify issues that may arise throughout the programming process where enhanced coordination between NDAs and accredited entities can be beneficial to enhance the support to help the country realize a paradigm shift in its efforts to achieve low-emission and climate-resilient development.</p>
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*Pillar IV: Complementarity at the level of delivery of climate finance through an established dialogue*

#### **Annual dialogue of climate finance delivery channels**

The Annual Dialogue of climate finance delivery channels will support the implementation of the Operational Framework by providing a space for high-level consultation and dialogue between climate finance delivery channels, in line with decision B.13/12, paragraph (b). The Executive Director will host and is responsible for the Annual Dialogue and will advise the Co-Chairs of the Board on the timing, scope and organization of the Annual Dialogue at least two months in advance of the meeting. In the future, other Funds may offer to host the Dialogue in collaboration with the GCF.

#### **Coordination arrangements between secretariats**

Coordination arrangements will facilitate the implementation of the Operational Framework. Such arrangements are to be developed by the GCF Secretariat in collaboration with secretariats of other climate finance delivery channels to advance operational matters of this framework. Each participant is welcome to report, as appropriate, on progress and activities to their respective board, in accordance with their own procedures and governance structures.

Coordination arrangements are to be efficient, results-oriented, avoid duplication and operate in line with relevant guidance. Building on existing initiatives and lessons learned, such arrangements may include working groups, information sharing platforms, and joint events and so on. Where possible, however, the implementation of the framework, particularly lessons learned, will be integrated into ongoing operations and processes.

#### **Country programming as the interface to support work related to advancing coherence at the national programming level**

Actions to promote coherence at the national programming level are to be pursued in a country-driven manner. Country programming will serve as the interface between actions to promote coherence at the national programming level and enhancing complementarity at the activity level. The Readiness and Preparatory Programme is available to support countries as they pursue actions related to this work, in line with the overall objective and existing guidelines of the programme.

#### **Input to the Standing Committee on Finance**

The Standing Committee on Finance could consider the information on the efforts under this Operational Framework. Outcomes and updates related may be included in the report to the COP.

## Appendix: Matrix of the GCF and other climate finance delivery channels

**Table 1. Matrix of design and operational aspects of climate finance delivery channels\***

	GCF	GEF			Adaptation Fund	CIFS	
		Trust Fund (GEF 5 & 6) **	LDCF	SCCF		Clean Technology Fund	Strategic Climate Fund
<b>Governance</b>							
Established	2010	1991	2001	2001	2001	2008	2008
UNFCCC mandate	Operating entity of the financial mechanism of the UNFCCC and of the Paris Agreement	Operating entity of the financial mechanism of the UNFCCC and of the Paris Agreement	Serves the UNFCCC and the Paris Agreement	Serves the UNFCCC and the Paris Agreement	Serves the Kyoto Protocol, and Decision 1/CMA.1 decided it “should serve the Paris Agreement” as well, consistent with decisions to be taken at COP24	None	None
Governing Body	24-member Board: <ul style="list-style-type: none"> <li>• 12 developing countries</li> <li>• 12 developed countries</li> </ul>	32-member Board: <ul style="list-style-type: none"> <li>• 16 developing countries</li> <li>• 14 developed countries</li> <li>2 economies in transition</li> </ul>	32-member Board: <ul style="list-style-type: none"> <li>• 16 developing countries</li> <li>• 14 developed countries</li> <li>2 economies in transition</li> </ul>	32-member Board: <ul style="list-style-type: none"> <li>• 16 developing countries</li> <li>• 14 developed countries</li> <li>2 economies in transition</li> </ul>	16-member Board: <ul style="list-style-type: none"> <li>• 2 from each of the 5 UN regional groupings</li> <li>• 1 SIDS</li> <li>• 1 LDC</li> <li>• 2 Annex I Parties</li> <li>• 2 non-Annex I Parties</li> </ul>	16-member trust fund committee: <ul style="list-style-type: none"> <li>• 8 eligible recipient countries</li> <li>• 8 contributor countries</li> </ul>	16-member trust fund committee: <ul style="list-style-type: none"> <li>• 8 eligible recipient countries</li> <li>• 8 contributor countries</li> <li>12-member sub-committees for Pilot Program for Climate Resilience (PPCR), Scaling-Up Renewable Energy in Low Income Countries Programme (SREP), and Forest</li> </ul>

							Investment Program (FIP) each: <ul style="list-style-type: none"> <li>• 6 eligible recipient countries</li> <li>• 6 contributor countries</li> </ul>
<b>Capitalization</b>							
Cumulative Funding pledged (~billion USD)	USD 10.3 (2015 – 2018)	USD 3.03 [climate allocation]	USD 1.225	USD 0.352	USD 0.64 [includes CDM revenue], as of March 2017	USD 5.4 <b>As of March 2017</b>	USD 2.61 <b>As of March 2017</b>
Contributor countries (developing in brackets)	43 (9)	39 (13)	25	15	14	9	13
<b>Promoting country ownership</b>							
National coordination focal point	National designated entities or focal points, which issues the No objection letter required to approve funding; proposes entities for direct access accreditation; convenes stakeholders at the national level; put forward readiness support requests and ensures alignment on funding proposals with national priorities (and other functions)	<b>GEF Political Focal Points</b> focus mainly on governance, including policies and decisions, and relations between member countries within their constituencies. Usually, they are the ones who follow the Council discussions and represent their countries at the Assembly. <b>GEF Operational Focal Points</b> are responsible for operations of GEF	<b>Same as GEF Trust Fund.</b>	<b>Same as GEF Trust Fund.</b>	The <b>Designated Authority (DA)</b> is responsible for endorsing the use of selected implementation modality, endorsing accreditation applications as National, Regional, and Sub-Regional Implementing Entities, and endorsing projects and programmes proposed by the implementing entities.	<b>Dedicated country focal points.</b> The CIF rely on the multilateral development banks (MDBs)-established procedures and country focal points for ensuring the country no-objection during the preparation of project proposals.	

		activities within their countries. This includes reviewing and endorsing project proposals.					
Readiness and capacity support provided	Support in the areas of: Establishing and strengthening NDAs and strategic frameworks; Preparation of country programmes; Accreditation for direct access entities; and Development of projects and programmes	PCCB and other CB support, such as strengthening or establishment of national climate change secretariats or national focal point, development of national reports, enhancement and transfer of technologies, etc.	Support for the Preparation of NAPAs and NAPs	Global support programme for Non-LDC NAP development	Small grants to support accreditation of NIEs & to build capacity to undertake climate finance readiness activities Including, grants available for: Project formulation; South-south cooperation; Technical assistance; Global, regional and sub-regional workshops; and webinars. One-on-one exchange with prospective IEs.	Preparation of country investment plans, project preparation support, and knowledge sharing events, all contributing to readiness and capacity support.	Preparation of country investment plans, project preparation support, and knowledge sharing events, all contributing to readiness and capacity support.
Accreditation of direct access entities (Y/N)	Yes	Yes	Yes	Yes	Yes	No	No
<b>Access Modalities</b>							

Accredited implementing entities	Total accredited entities: 48 • National direct access: 14 • Regional direct access: 9 • International access: 25	Total implementing partners: 18 • Multilateral agencies: 10 • Project agencies: 8	Total implementing partners: 18 • Multilateral agencies: 10 • Project agencies: 8	Total implementing partners: 18 • Multilateral agencies: 10 Project agencies: 8	Total accredited entities (as of October 2016): 43 • NIEs: 25 • RIEs: 6 • MIEs: 12	MDBs: 5	MDBs: 5
Programming	<p><b>Country programmes and entity work programmes</b> lie at the center of the programming exercise. These living documents facilitate the alignment of countries' programming priorities with the expertise and capabilities of the accredited entities.</p> <p>GCF provides <b>readiness support</b> to assist countries, inter alia, in the elaboration of strategic frameworks.</p> <p>GCF holds <b>Structured</b></p>	<p>GEF holds <b>Expanded Constituency Workshops (ECWs)</b> for GEF political/operational focal points to discuss GEF programming and strategy. GEF-6 Programming Directions place an emphasis on supporting synergy/integration that combine policies, technologies, and management practices with significant mitigation and resilience potential.</p> <p><b>GEF-6 Climate Change Mitigation Strategy</b> seeks to enhance synergies</p>	<p>Projects and programs are designed based on the information and guidance provided in <b>NCs, NAPAs and INDCs</b>, as well as. The '<b>GEF Programming Strategy on Adaptation to Climate Change for the LDCF and the SCCF for the period 2014-2018</b> seeks to: (a) Integrate CCA into relevant policies; (b) Expand synergies between CCA and other GEF focal areas.</p> <p>SCCF to finance activities, programs and measures relating to climate change that are <b>complementary</b> to those funded under the climate change focal area of the GEFTF and through other bilateral and multilateral sources.</p>	<p>The <b>Strategic Priorities, Policies and Guidelines</b> mandates to finance concrete adaptation projects and programmes that are <b>country driven</b> and are based on the <b>needs, views and priorities</b> of eligible Parties. Such projects and programmes are to also take into account, <b>national priorities</b>.</p> <p>In assessing project and programme proposals, the Adaptation Fund Board is to consider <b>consistency with national sustainable development</b></p>	<p>MDBs' jointly assess interested eligible countries' investment potential to meet CTF investment criteria. Where there is a potential fit, MDBs conduct a joint exercise involving other relevant development partners. CTF Trust Fund Committee reviews the investment plan with a view to endorsing a</p>	<p><b>Pre-Programming</b> Committees agree on country or regional pilots and criteria for country selection. CIF AU, through MDBs inform countries and invite expression of interest;</p> <p><b>Programming Phase</b> SCF Sub-Committees endorses Investment Plan; Investment and financing proposals are developed; a SCF Sub-Committee approves financing for investments and other proposals.</p>	

	<b>Dialogues</b> to articulate regional roadmaps for GCF engagement.	across focal areas and to <b>enhance complementarity with other climate financing options, including the GCF.</b>			<b>strategies</b> and other policies. Aims to move to a <b>programmatic approach, avoid duplication</b> with other funding sources.	resource envelope authorising designated MDBs to proceed with development and preparation of individual investment operations for CTF co-financing.	
<b>Project preparation support</b>							
Project preparation support	Readiness activity area 4 to support pipeline development - PPF (capped at USD 1.5 million per request)	Project preparation grants to develop proposals from concepts	Project preparation grants to develop proposals from concepts	Project preparation grants to develop proposals from concepts	Project preparation grants (USD 30,000 + USD 15,000 technical assessments if necessary). For regional projects, up to USD 100.000.	Funding to develop investment plans and project preparation.	
<b>Activities financed</b>							
Thematic focus	<ul style="list-style-type: none"> <li>• Adaptation</li> <li>• Mitigation</li> </ul>	<ul style="list-style-type: none"> <li>• Mitigation</li> <li>• Capacity-building</li> </ul>	<ul style="list-style-type: none"> <li>• Adaptation</li> </ul>	<ul style="list-style-type: none"> <li>• Adaptation</li> <li>• Technology transfer</li> </ul>	<ul style="list-style-type: none"> <li>• Adaptation</li> </ul>	<ul style="list-style-type: none"> <li>• Mitigation</li> </ul>	<ul style="list-style-type: none"> <li>• Adaptation</li> <li>• Mitigation</li> </ul>
Mitigation result areas	<ul style="list-style-type: none"> <li>• Energy access and power generation</li> <li>• Low emission transport</li> <li>• Building, cities and industries and appliances</li> </ul>	<ul style="list-style-type: none"> <li>• Energy efficiency</li> <li>• Renewable energy</li> <li>• Power</li> <li>• Cities and transport</li> <li>• Forests</li> <li>• Agriculture</li> <li>• Manufacturing</li> </ul>	None	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Transport</li> <li>• Industry</li> <li>• Agriculture</li> <li>• Forestry</li> <li>• Waste management</li> </ul>	None	<ul style="list-style-type: none"> <li>• Renewable energy</li> <li>• Energy efficiency</li> <li>• Sustainable transport</li> </ul>	<ul style="list-style-type: none"> <li>• Renewable energy</li> <li>• Forests and landscapes</li> </ul>

	<ul style="list-style-type: none"> <li>• Forestry and land-use</li> </ul>	<ul style="list-style-type: none"> <li>• Waste</li> </ul>					
Adaptation result areas	<ul style="list-style-type: none"> <li>• Most vulnerable people and communities</li> <li>• Health and well-being, and food and water security</li> <li>• Infrastructure and built environment</li> <li>• Ecosystem and ecosystem services</li> </ul>	Not applicable	<ul style="list-style-type: none"> <li>• Water Resources</li> <li>• Food Security and Agriculture</li> <li>• Health</li> <li>• Disaster Preparedness and Risk Management</li> <li>• Coastal Zone Management and Infrastructure</li> <li>• Natural Resource Management</li> <li>• Community-Based Adaptation</li> </ul>	<ul style="list-style-type: none"> <li>• NAPA Implementation</li> <li>• water resources management</li> <li>• land management</li> <li>• agriculture</li> <li>• health</li> <li>• infrastructure development</li> <li>• fragile ecosystems, supporting capacity-building, including institutional capacity</li> <li>• Technology transfer</li> <li>• Capacity-building</li> <li>• Economic diversification</li> </ul>	<ul style="list-style-type: none"> <li>• Food security</li> <li>• Agriculture</li> <li>• Water management</li> <li>• Coastal management</li> <li>• Multi-sector</li> <li>• Rural development</li> <li>• Disaster risk reduction</li> <li>• Forests</li> </ul>		<ul style="list-style-type: none"> <li>• Agriculture and landscape management</li> <li>• Water management</li> <li>• Infrastructure</li> <li>• Climate information systems and disaster risk management</li> </ul>
Financial instruments available	<ul style="list-style-type: none"> <li>• Grants</li> <li>• Concessional loans</li> <li>• Equity</li> <li>• Guarantees and other risk mitigation instruments</li> </ul>	<ul style="list-style-type: none"> <li>• Grants</li> <li>• Non-grant programme only</li> <li>• Concessional loans</li> <li>• Equity</li> <li>• Guarantees and other risk</li> </ul>	Grants	Grants	Grants	<ul style="list-style-type: none"> <li>• Grants</li> <li>• Concessional loans</li> <li>• Equity</li> <li>• Guarantees and other risk</li> </ul>	<ul style="list-style-type: none"> <li>• Grants</li> <li>• Concessional loans</li> <li>• Equity</li> <li>• Guarantees and other risk mitigation instruments</li> </ul>

		mitigation instruments				mitigation instruments	
						<ul style="list-style-type: none"> <li>Local currency financing</li> </ul>	
<b>Engagement with the private sector</b>							
<b>Modalities for engagement</b>	Yes. A dedicated Private Sector Facility and a Private sector advisory group. Also Provides for accreditation of private sector actors and of entities that engage with the private sector	Yes (through the non-grant pilot programme)	The LDCF and SCCF engaged the private sector, as reported in the Annual Monitoring Report for the LDCF and SCCF.  The programming strategy for the LDCF and SCCF includes provisions on private sector.		No primary emphasis on engagement with private sector, although some engagement with the private sector has occurred; projects involve in-kind and parallel inputs from private sector entities	USD 2.3 billion (or close to 30 % of \$8.3 billion total CIF funding) has been allocated for projects and programs that aim to stimulate private sector participation, including USD 1.7 billion for private sector projects specified in CIF investment plans and ~ USD 640 million to specific private sector facilities to achieve scale and speed in response to market demand, including \$465 million allocated through the CTF Dedicated Private Sector Programs	
<b>Target recipients</b>	All developing country Parties to the UNFCCC (140 NDAs/FP registered)	Developing country Parties to the conventions the GEF serves, or who are eligible to receive World Bank (IBRD or IDA) financing or UNDP technical assistance	Least developed countries (LDCs)	Non-Annex I Parties to the UNFCCC, prioritizing vulnerable countries in Africa, Asia and SIDS	Developing country Parties to the Kyoto Protocol which are particularly vulnerable to climate change	ODA eligible developing countries with active MDB programs	FIP and PPCR: ODA eligible developing countries with active MDB programs SREP: low income countries eligible for MDB concessional financing (i.e., IDA or a regional development bank's equivalent) with active MDB programs
<b>Projects</b>							

Funding approved (billion USD)	USD 2.24 billion	USD 2.54	USD 1.160	USD 0.348	USD 0.42	USD 4.92	USD 1.65
Projects approved	43	379	248	76	63	102	114
Countries with approved projects	64	137	51	79	55	24	36
Co-financing (billion USD)	USD 7.32	USD 24.7	USD 4.75	USD 2.62	-	USD 46	USD 5.4
Co-financing ratio	1:2.27	1:9.7	1:4.1	1:7.5	-	1:9.5	1:3.3
Data reported	Apr - 2017	Jun - 2016	May- 2017	May- 2017	May 2017	Dec - 2016	Dec - 2016
Project/programme sizes	Micro (up to USD 10 million) Small (USD 10 to USD 50 million) Medium (USD 50 to USD 250 million) Large (more than USD 250 million)	Enabling Activities (EAS) (up to USD 10 million) Medium (MSPs) (up to USD 2 million) - Full-sized (FSPs) (more than USD 2 million) - Direct Access for NPFES and Convention Reports - Programmatic Approaches (PAs)	Medium (MSPs) (up to USD 2 million) - Full-sized (FSPs) (more than USD 2 million) - Enabling Activities (EAS) - Programmatic Approaches (PAs)	Medium (MSPs) (up to USD 1 million) - Full-sized (FSPs) (more than USD 1 million) - Programmatic Approaches (PAs)	Small-size (up to USD 1 million) - Regular (more than USD 1 million) - Regional projects up to USD 14 million	Average funding per project: USD 48.2 million	Average funding per project: USD 11.1 – 16.5 million
<b>Approach to environmental and social safeguards</b>							
ESS	<ul style="list-style-type: none"> <li>• Requirement for accreditation</li> <li>• Second level due diligence assessment of funding proposals</li> <li>• Monitoring &amp; accountability reporting</li> <li>• IFC policy</li> </ul>	<p>Policy states the principles with regards to social and environmental safeguards that the GEF shall apply to those operations that it finance</p> <p>Assessment of GEF Project Agencies and Assessment of the Existing GEF Agencies in accordance with 8 principles and considering the comparative advantage of reach Agency.</p> <p>No GEF Secretariat level screening of the implementation of safeguards on a project-by-project basis</p> <p>World Bank policy</p>	<ul style="list-style-type: none"> <li>- Requirement for accreditation</li> <li>- Second level due diligence assessment of funding</li> <li>- The Policy Statement requires IE's to develop an</li> </ul>	Uses the respective policies of the MDB partners			

	<ul style="list-style-type: none"> <li>• Fast-tracking of entities from AF</li> </ul>	<ul style="list-style-type: none"> <li>• The GEF Policy requires demonstration that Partner Agency has relevant policies and systems in place including institutional capacity.</li> </ul>	<p>ESMS commensurate to the potential scope and severity of E&amp;S risks inherent in the project/programme design.</p> <ul style="list-style-type: none"> <li>- Monitoring &amp; accountability reporting</li> </ul>	
<b>Fiduciary and monitoring systems and safeguard policies and monitoring systems</b>				
Fiduciary and safeguard policies	<ul style="list-style-type: none"> <li>• GCF fiduciary standards and interim safeguard (applies the IFC's performance standards)</li> <li>• Gender policy and action plan</li> <li>• Mandate to develop and indigenous people's policy</li> </ul>	<ul style="list-style-type: none"> <li>• GEF environmental and social policy</li> <li>• GEF fiduciary standards</li> <li>• GEF Gender Equality Action Plan and Gender mainstreaming policy</li> <li>• Indigenous Peoples Policy</li> </ul>	<ul style="list-style-type: none"> <li>• AF environmental and social policy</li> <li>• AF Fiduciary standards</li> <li>• Gender policy and action plan</li> <li>• Transparency, self-investigative powers, and anti-corruption measures</li> </ul>	<ul style="list-style-type: none"> <li>• Applies fiduciary standards and safeguard policies of each MDB partner</li> <li>• CIF Gender Action Plan (Phases 1&amp;2)</li> </ul>
Monitoring systems	<ul style="list-style-type: none"> <li>• Accreditation: Annual self-reporting on systems compliance with standards and safeguards. Secretariat conducts midterm review and any ad hoc compliance reviews</li> </ul>	<ul style="list-style-type: none"> <li>• Annual reporting by agencies</li> <li>• Agency-led mid-term review of full-size projects</li> <li>• Agency-led terminal evaluations of projects/programmes, which must have independent review</li> <li>• Independent Evaluation Office plays a central role in evaluations from more than one GEF agency</li> </ul>	<p>Annual project performance. Regular projects subject to midterm and terminal evaluations. Terminal evaluations must be conducted by an independent investigator of</p>	<ul style="list-style-type: none"> <li>• Applies the Results Frame approved by the CIF governing bodies and the Monitoring and Reporting Toolkit developed for each program. CIF core indicators collected and presented in the annual results report (information from recipient countries and MDBs).</li> <li>• Applies each MDB's system for monitoring &amp; evaluation of projects.</li> <li>• MDB lead med-term reviews and completion reports.</li> </ul>

	<ul style="list-style-type: none"> <li>•Activities: Quarterly financials, semi-annual progress reports, and mid-term and final evaluations. Participatory monitoring encouraged</li> <li>•Spot checks: GCF can conduct spot-checks using a risk-based system</li> </ul>				entity's choosing. Small-scale project evaluation will be deemed as necessary. The Board can carry out independent reviews or evaluations of the projects and programmes as and when deemed necessary.	<ul style="list-style-type: none"> <li>•CIF Evaluation and Learning Initiative conducts evaluations and studies (thematic, sectoral, strategic, etc.).</li> </ul>	
<b>Administration</b>							
Implementing entity fees (percent)	<p>Fee cap for grants to public sector projects/programmes 9% of grant):</p> <ul style="list-style-type: none"> <li>• Micro (&lt;=10m): 10</li> <li>• Small (&gt;10m - &lt;=50m): 9</li> <li>• Medium (\$50m and &lt;=\$250m): 7</li> <li>• Large (&gt;=\$250m):7</li> </ul> <p>Private sector and nongrant concessional loan public sector projects decided case-by-case)</p>	<p>Projects (% of grant)</p> <ul style="list-style-type: none"> <li>•&lt;USD 10m: 9.5</li> <li>•&gt;USD 10m: 9.0</li> </ul> <p>Programmes:</p> <ul style="list-style-type: none"> <li>• Approved by an executive Board: 8</li> <li>• Approved by other agencies: 9</li> <li>• Small grants programme: 4</li> </ul> <p>Average: 7.18</p>	Average: 8.81	Average: 8.82	Cap: 8.5 Average: 7.3	<p>Project grants cap: 5% of grant amount</p> <p>Public sector loans and guarantees:</p> <ul style="list-style-type: none"> <li>•0.18 semi-annually, or</li> <li>•0.45 up front</li> </ul> <p>Private sector projects determined on a case-by-case basis:</p> <ul style="list-style-type: none"> <li>•Lowest 0.68</li> <li>•Highest: 5.67</li> </ul> <p>Overall average: 0.66</p>	<p>Negotiated case-by-case:</p> <ul style="list-style-type: none"> <li>• Lowest: 0.5</li> <li>• Highest: 30.6</li> </ul> <p>Average: 4.02</p>

\* Table adapted from Amerasinghe, N. et al (2017). “The Future of the Funds. Exploring the Architecture of Multilateral Climate Finance”. World Resources Institute, with additional information drawn from public documents and recent literature.

\*\* Table does not consider the newly launched GEF Capacity-building Initiative for Transparency (CBIT). The Paris Agreement requested the GEF to support the establishment of the CBIT through voluntary contributions during GEF-6 and future replenishment cycles. While the table does not consider all relevant details of CBIT as they are still being operationalize, the work of the GEF on capacity-building on transparency is considered in Annex II in the Operational Framework with regards to the activity level.

Abbreviations: AF = Adaptation Fund, CIFs = Climate Investment Funds, GCF = Green Climate Fund, GEF = Global Environment facility, IFC = International Finance Cooperation, LDC = Least developed country, LDCF = GEF Least Developed Country Fund, MDB = Multilateral development bank, MIE = Multilateral implementing entity, NAP = National Adaptation Plan, NAPA = National adaptation plan of action, NIE = National implementing entity, ODA = Official development assistance, RIE = Regional implementing entity, SCCF = GEF Special Climate Change Fund, SIDS = Small Island Developing States, UNFCCC = United Nations Framework Convention on Climate Change

## **Annex III: Immediate actions that the Secretariat will implement**

### **I. Origination**

- (a) Improve origination of funding proposals by supporting national designated authorities (NDAs)/focal points (FPs) in accelerating the development of strategic country programmes;
- (b) Encourage funding proposals and concept notes to be developed directly from country and entity work programmes, and concept notes will include a clear rationale on the concept of paradigm shift;
- (c) Derive strategic programming from the country and accredited entity (AE) work programmes and requests for proposal (RFP);
- (d) Encourage and support NDAs to solicit AEs to support country programmes and the preparation of the pipeline based on the principle of country ownership;
- (e) Continue to implement the no-objection procedure by NDAs on Project Preparation Facility proposals before Secretariat consideration;
- (f) Inform NDAs or FP of concept note (CN) submissions to the Secretariat and, where requested by the NDA/FP, inform on the feedback provided to the AE;
- (g) Improve and simplify the CN templates. Template to include a word- and length-limit as technology development allows; and
- (h) Require country programmes, concept notes and funding proposals to satisfactorily cover gender issues, stakeholder engagement and, where relevant, indigenous people issues.

### **II. Review**

- (a) Develop an online CN and FP submission portal;
- (b) Consult with the Board on policy related issues raised in concept notes as necessary;
- (c) As part of the ongoing independent Technical Advisory Panel (TAP) review, explore increased TAP and AE interactions;
- (d) Expedite timing, processing, transparency and guidance of concept notes and funding proposals;
- (e) Increase transparency by publishing concept notes and the status of funding proposals as per the confidentiality assessment of the AEs and in accordance with the Information disclosure policy;
- (f) Publish the Secretariat's assessment of funding proposals sent to the Board;
- (g) The Secretariat will check the feasibility of proposed conditions with the accredited entity during the project review; and
- (h) Improve data management and analytics, for example the AE submission portal and NDA portal. Provide updated note on proactive pipeline management and related knowledge management by the eighteenth meeting of the Board (B.18).

### **III. Post approval**



- (a) Take note of the budget implications of the implementation of conditions;
- (b) Provide an update on the status of the fulfillment of conditions attached to approved funding proposals; and
- (c) Provide status update on Board approved funding proposals without a signed accreditation master agreement.

## Annex IV: Updated project and programme cycle

**Table. Updated project and programme activity cycle**

KEY STAGES AND INDIVIDUAL STEPS		ACTOR(S)	RESPONSIBILITY AND TASK
<b>I. Country, regional and/or accredited entity programmes</b>			
1.1	Submission and compilation of country programmes	National designated authority (NDA) or focal point (FP) Secretariat	<ol style="list-style-type: none"> <li>1. Submit country programme, including a national adaptation plan or voluntary adaptation plan and appropriate elements of countries' nationally determined contributions, to the Secretariat.</li> <li>2. NDAs may request support from the Readiness and Preparatory Support Programme under the readiness activity areas outlined in decision B.13/32.</li> <li>3. NDA/FP may inform the Secretariat of preferred AEs that will implement programmes and projects under the country programme.</li> <li>4. The Secretariat will compile country programmes and submit this to the Board for its information.</li> </ol>
1.2	Submission and compilation of accredited entity work programme	Accredited entity (AE) Secretariat	<ol style="list-style-type: none"> <li>1. AEs will submit annual and/or multi-annual work programmes to the Secretariat</li> <li>2. AEs will develop annual and/or multi-annual programmes in consultation with NDAs/FPs</li> <li>3. The Secretariat will compile AE work programmes to be submitted to the Board for information and discussion.</li> </ol>
1.3	Structured dialogues	Secretariat, NDAs/FPs and AEs	In accordance with the strategic plan, the Secretariat will host an annual strategic dialogue at the regional level in each region.
<b>II. Generation of programme or project funding proposals</b>			
2.1	Strategic approaches	NDA, Secretariat and AEs	<ol style="list-style-type: none"> <li>1. Based on the country and AE work programmes, countries will identify priorities, analyse financial needs and gaps and identify partners to design and implement funding proposals.</li> <li>2. The Secretariat would provide support to NDAs/FPs and direct access entities to conduct the process for pipeline origination through strategic approaches.</li> </ol>
2.2	Requests for proposals	Board, Secretariat	The Board may periodically approve requests for proposals to guide the development of the GCF portfolio in specific areas in accordance with the initial strategic plan.

2.3	Regular call for funding proposals	Secretariat	<ol style="list-style-type: none"> <li>1. The Secretariat will publish regular calls for funding proposals on the GCF website, as directed by the Board.</li> <li>2. NDAs/FPs and AEs may submit funding proposals to the Secretariat in response to requests for proposals, as well as funding proposals included in country and AE work programmes, which would be subject to the proposal approval process.</li> </ol>
<b>III. Concept note (Voluntary)</b>			
3.1	Concept note submission	AE, NDA/FP	<ol style="list-style-type: none"> <li>1. The NDAs/FPs and/or AEs submit the concept note to the Secretariat.</li> <li>2. In accordance with the country ownership guidelines and relevant decisions, AEs are encouraged to engage NDAs/FPs prior to the submission of concept notes.</li> <li>3. The Secretariat acknowledges the submission of the concept note, and updates the concept note pipeline accordingly.</li> </ol>
3.2	Concept note confirmation	AE, NDA/FP	On receipt of a concept note submission from an accredited entity, the Secretariat will seek confirmation from the national designated authority or focal point that the concept note fits under national priorities and country ownership.
3.3	Concept note pipeline	Secretariat	The Secretariat will present an updated concept note pipeline prior to each Board meeting.
3.4	Feedback and recommendations on the concept note	Secretariat, NDA/FP, AE	In consultation with the NDA/FP, the Secretariat will provide feedback and recommendations to the AE, and advises if the concept is endorsed, not endorsed with possibility of resubmission or rejected.
3.5	Project preparation and development support	AE, Secretariat	<ol style="list-style-type: none"> <li>1. The Project Preparation Facility (PPF) will support project and programme preparation requests from all accredited entities, especially direct access entities, for projects in the micro to small size category.</li> <li>2. The NDA/FP will submit the no-objection letter related to the PPF request through the Accredited Entity.</li> <li>3. AEs submit proposals based on the PPF application template.</li> <li>4. The Secretariat will report to the Board at each meeting on the pipeline of PPF requests received, approved and under implementation.</li> <li>5. The Secretariat will report on the progression of concept notes receiving PPF support to funding proposals submitted and approved by the Board.</li> <li>6. Funding proposals developed with PPF resources should be submitted to the Board within</li> </ol>

			two years of PPF approval unless sufficient justification for an extension is provided.
<b>IV. Funding proposals</b>			
4.1	Full proposal pipeline	Secretariat	The Secretariat will update the information on the GCF portfolio prior to each Board meeting and publish it on the GCF website.
4.2	No-objection letter	NDA/FP	The NDA or FP will provide a no-objection letter, in line with the GCF transparent no-objection procedure in accordance with decision B.08/10.
4.3	Funding proposal submission to the Secretariat	AE, Secretariat	<ol style="list-style-type: none"> <li>1. The full funding proposal submitted to the Secretariat.</li> <li>2. The Secretariat acknowledges the submission of the documentation.</li> <li>3. The Secretariat reviews the funding proposals for completeness of documentation.</li> </ol>
4.4	Information disclosure	AE, Secretariat	In accordance with the comprehensive information disclosure policy of the GCF as in force.

<b>V. Secretariat analysis and independent technical assessment and recommendations to the Board</b>			
5.1	Analysis and recommendation to the Board	Secretariat	<ol style="list-style-type: none"> <li>1. The Secretariat will carry out necessary and appropriate second-level due diligence.</li> <li>2. The Secretariat will assess compliance with the GCF interim environmental and social safeguards, Gender policy, financial policies and any other policies promulgated by the Board, in addition to the performance of the project or programme against activity-specific criteria.</li> </ol>
5.2	Independent assessment	TAP, AEs	<ol style="list-style-type: none"> <li>1. The independent Technical Advisory Panel (TAP) will conduct technical assessment of the performance of the project or programme against activity-specific criteria, as defined in the initial investment framework (decision B.09/05).</li> <li>2. The TAP will present the outcome of its technical assessment and its recommendations on each funding proposal.</li> <li>3. The Secretariat facilitates the response from AEs to the assessment and recommendations from the TAP.</li> <li>4. The TAP assessment and the AEs responses will be published on the GCF website.</li> </ol>
5.3	Submission of documentation to the Board	Secretariat	<ol style="list-style-type: none"> <li>1. The Secretariat will only submit to the Board for its consideration those funding proposals whose approval has been recommended by the independent Technical Advisory Panel and the Secretariat.</li> </ol>

			<p>2. The Secretariat will submit the following documentation to the Board:</p> <ul style="list-style-type: none"> <li>(i) The final funding proposal as submitted by the AE</li> <li>(ii) The Secretariat’s assessment of compliance with safeguards and policies and performance of the project or programme against activity-specific criteria. Proposals that best achieve GCF objectives will be selected based on selection process methodologies to be approved by the Board</li> <li>(iii) A summary of the second-level due diligence carried out by the Secretariat</li> <li>(iv) A cover note containing: the funding recommendation by the Secretariat; and a summary of the proposal and the underlying assessments with respect to the activity-specific criteria</li> <li>(v) The assessment of the TAP and responses from AEs (standard practice since the fourteenth meeting of the Board).</li> </ul>
<b>VI. Board decision</b>			
6.1	Board decision	Board	<p>1. The Board takes a decision to:</p> <ul style="list-style-type: none"> <li>(i) Approve the funding proposal; or</li> <li>(ii) Provide an approval that is conditional on modifications to project or programme design or subject to availability of funding; or</li> <li>(iii) Reject the funding proposal.</li> </ul>
6.2	Post approval follow-up	Secretariat	<ul style="list-style-type: none"> <li>1. The Secretariat will inform the AE and the NDA/FP of the Board’s decision and the next steps in relation to the approval conditions.</li> <li>2. The decision is recorded by the Secretariat and communicated to the Interim Trustee.</li> <li>3. In the case of rejection, the Secretariat will inform the NDA/FP (decision B.04/04) that, in accordance with decisions B.06/09 and B.13/24, they may request reconsideration of the funding decision via the independent Redress Mechanism.</li> </ul>
6.3	Implementation of Board conditions	Secretariat	<p>The Secretariat will report to the Board at each meeting on the status of implementation of the approval conditions, and identify any matters that require further Board action.</p>
<b>VII. Legal arrangements for approved proposals</b>			

7.1	Funded activity agreement	Secretariat with AE	<ol style="list-style-type: none"> <li>1. The Secretariat will work with AEs to conclude any necessary legal arrangements between the GCF and the AE.</li> <li>2. Legal agreements are signed by the Executive Director and the AE.</li> <li>3. The Interim Trustee is notified.</li> <li>4. The NDA/FP is informed of the outcome of the funded activity agreement.</li> </ol>
7.2	Letter of commitment	Interim Trustee	The Interim Trustee provides a letter of commitment, subject to the availability of funding.
7.3	Funding proposal conditions	Secretariat, AE, Board	The Secretariat will assess the conditions attached to funding proposals and, in the event any such condition is considered by the Secretariat to be inconsistent with GCF policies, the Secretariat will make a recommendation to the Board for further guidance and pending such guidance, the relevant condition shall be deemed not to apply (decision B.16/02).

## **Annex V: Risk management framework component I – revised risk register**

### **I. Introduction**

1. Through decision B.12/34, the Board adopted the risk register as contained in annex XXVIII and requested the Risk Management Committee (RMC) to review the probability, impact and resulting priorities of risks prior to the thirteenth meeting of the Board. A technical note was compiled to provide an approach and rationale that estimates the probabilities, impacts and resulting priorities in the risk register. Moreover, the Board indicated that the risk register will be updated at least once a year. In addition, the Board requested the Secretariat to monitor and report to the Board at each Board meeting any changes in the priorities of the risk register.
2. The Board, through decision B.13/35, adopted the proposed revision of the risk register and concluded that the proposal was reasonable. The RMC also recommended that the Board change the risk register update interval from “at least once a year” to “as frequently as the RMC deems necessary, but no less frequent than once every three years”, due to the fact that the risk environment in which the Green Climate Fund (“GCF”, “the Fund”) operates evolves as a result of external events, changes in the mix of instruments deployed by the GCF and other strategic priorities.
3. Through decision B.13/36, the Board requested the Secretariat, in consultation with the RMC, to develop the necessary methodologies to enhance the Secretariat’s risk management capacity.
4. This document is a component of the Risk Management Framework (“RMF”), and it contains an updated version of the GCF’s previous risk register (GCF/B.13/29). The updated technical note from the RMC regarding the risk register is contained in Appendix I. The risk register provides a comprehensive list of non-overlapping risk types that concern the GCF and a clear definition for each risk type in that list. The risk register brings the following benefits:
  - (a) It provides a consistent terminology for the GCF to communicate about risk.
  - (b) It helps define the mandate of the Office of Risk Management and Compliance by clarifying what should be a risk concern versus what should be a strategy concern.
  - (c) It defines the structure around which the rest of the RMF can be defined, thus bringing consistency across the RMF.
5. Specifically, this new version ensures that the set of risks listed in the register are comprehensive and non-overlapping, and that it clarifies the philosophy of what should be a risk concern vs. strategic concern. Beyond the risk types and definitions, GCF’s previous risk register also included some other parameters on each risk type – most importantly the likelihood, impact, and mitigating actions. These other parameters too have been updated in this version of the risk register. The main focus of these updates was to ensure greater consistency in these parameters across various risk types and with the new proposed risk appetite statement. However, the parameters have a strong dependence on the rest of the RMF (including detailed processes and procedures which are a part of the RMF) which is currently being revised. Hence, these parameters should be reviewed again after the rest of the RMF has been detailed.

### **II. Linkages with previous decisions and other documents**

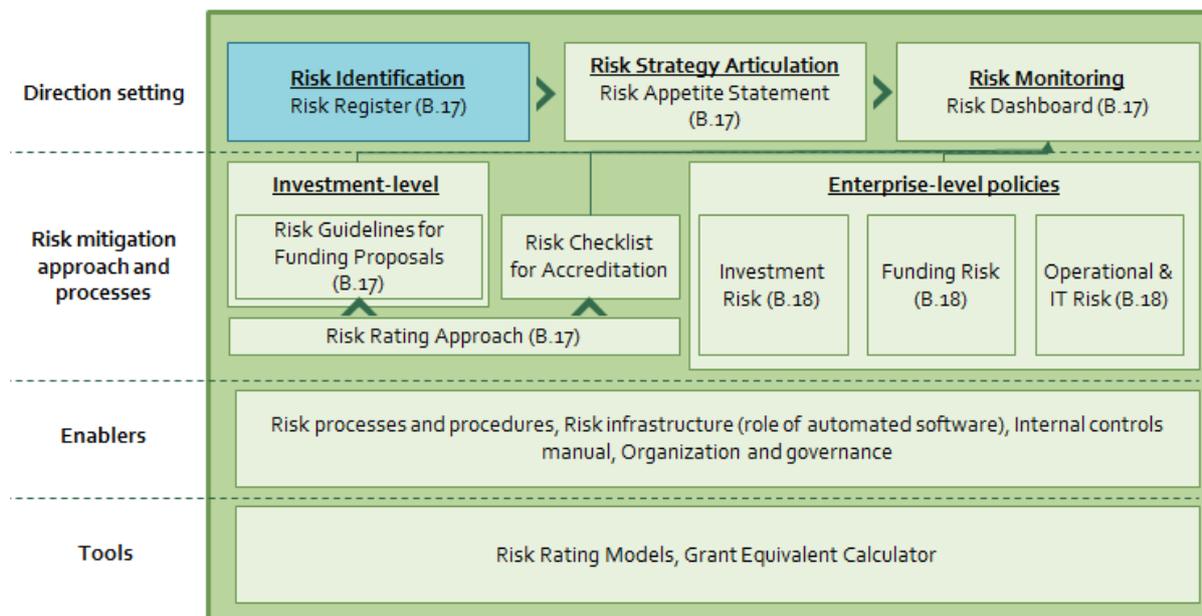
6. This document also has linkages with the following documents:

- (a) Document GCF/B.12/17 titled “Initial risk management framework: risk register, risk appetite update and Initial risk guidelines for credit and investment”
- (b) Document GCF/B.13/29 titled “Report on the proposed revision of the risk register”

### III. Objective

7. This document is a component of the Risk Management Framework (RMF), and it contains an updated risk register. The risk register provides a comprehensive list of non-overlapping risk types that concern the GCF, and a clear definition for each risk type in that list.

**Figure 1. Risk Management Framework (RMF) components**



8. The risk register brings the following benefits:
- (a) Provides a consistent language and terminology for the GCF to communicate about risk, outlining a comprehensive set of non-overlapping risks that GCF faces with clear definitions;
  - (b) It helps define the mandate for the Office of Risk Management and Compliance by clarifying what should be a risk concern versus what should be a strategy concern; and
  - (c) It defines the structure around which the rest of the RMF can be defined, thus bringing consistency across the RMF.
9. The risk register also summarizes mechanisms in place to identify, analyse and evaluate the risks. It can be used to assess the relative priority of the risks and to take control actions to mitigate them.

### IV. Effective date

10. The revised risk register set forth in appendix I will take effect on September 1<sup>st</sup> 2017. If the Interim Trustee is unable to implement the requirements in the revised risk register, they will become applicable after the selection of the Permanent Trustee. Until that time, the GCF should monitor the Fund’s adherence to these requirements to the extent possible under the current agreement. It should be noted that beyond the list of risk types and their definitions, other parameters described in this risk register have a strong dependence on the rest of the

RMF (including the RMF's detailed elements like processes and procedures) which is currently being revised. Hence these parameters of the risk register should be reviewed again after the rest of the RMF has been detailed.

## Appendix I: Updated technical note from the Risk Management Committee and the revised risk register

### I. Introduction

1. In decision B.12/34, the Board adopted the risk register and requested the Risk Management Committee (RMC) to review the probabilities, impacts and resulting priorities of risks prior to the thirteenth meeting of the Board. This technical note was compiled to provide an approach and rationale that estimates the probabilities, impacts and resulting priorities in the risk register.
2. This technical note has been updated as part of the revisions proposed to the risk register in this document.

### II. Definition

3. General definitions: Risk is a potential event that can threaten the achievement of an organization's objectives. Organizations take various actions to control risk within their risk appetite and risk tolerances. Risk that exists before organizations take mitigating actions is termed inherent risk, whereas risk that remains after control measures are taken is termed residual risk. A risk register is a documented collection of the risks impacting an activity or the organization, as well as the mechanisms in place to identify, analyze and evaluate the risks. It can be used to assess the relative priority of the risks and to take control actions to mitigate them. For each risk, the following parameters are identified:
  - (a) Probability and impact: The assessment of the likelihood of the risk events occurring and, if the risk event occurs, the overall impact on the organization;
  - (b) Risk tolerance: The level of appetite or tolerance that the organization has to the particular type of risk;
  - (c) Mitigation: Mechanisms that should ideally be in place to reduce the probability of occurrence, or to reduce the impact of, each type of risk if it were to occur. Potential mitigation measures include policies, procedures, internal controls, and analytical tools;
  - (d) Priority: The relative importance to the organization of each risk based on the combination of probability of occurrence and impact; and
  - (e) Key risk indicator: The parameter(s) used to measure the level of risk that materialized.
4. Two other parameters from the previous risk register (GCF/B.13/29) - Triggers and Owners – have been removed in this revision. The Triggers parameter was removed as it had strong overlaps with the Mitigation parameter. The previous risk register (GCF/B.13/29) also assigned multiple owners to each risk. It is recommended that the Owner parameter is considered for inclusion again once the rest of the RMF has been detailed and there is further clarity on ownership (i.e. a single owner) of each risk-related activity.

### III. Proposed risk assessment approach

5. There are two types of risk: inherent risk and residual risk. Risk that exists before an organization takes mitigation actions is inherent risk, and risk that remains after control measures are taken is residual risk. The objective of risk management is to maintain the residual risk level within risk appetite and tolerance set by the board of an organization.
6. Ideally, the probability and impact of risk (and the resulting priority also) need to be based on the actual risk/loss events of the GCF. In such cases, the GCF can observe the risk

probability and impact from its historical risk data, thereby directly arriving at risk priority. However, many of the estimates of risks will always be based on "expert judgment" since some of the risk types will occur very rarely so as to allow the development of a meaningful historical database with any level of statistical significance.

7. As a start-up organization, the GCF does not have its own historical data, making it inevitable that it will rely on experts' professional judgment as a starting point. Therefore, it is useful to follow the flow of logic from inherent risk to residual risk considering mitigation measure.

#### **IV. Initial assessment**

8. The Probability of occurrence and Impact are defined as follows:

(a) Probability of occurrence

- (i) High – highly likely to occur within the next 12 months;
- (ii) Somewhat likely – would not be surprising if it occurred within the next 36 months;
- (iii) Somewhat unlikely – would be surprising if it occurred within the next 36 months; and
- (iv) Low – highly unlikely to occur within the next 36 months.

(b) Impact

- (i) High – a material adverse impact that could impede the organization's ongoing viability and/or its ability to meet its strategic objectives;
- (ii) Somewhat disruptive – an adverse impact that would be disruptive to the viability of the GCF and/or its ability to meet its strategic objectives;
- (iii) Somewhat non-disruptive – a relatively contained adverse impact that could impact the financials of the GCF and/or its ability to meet its strategic objectives by up to 10 per cent; and
- (iv) Low – minimal and contained impact.

9. The priorities for inherent and residual risks are assigned using the priority grid (Table 1) approved by the Board as part of the risk dashboard, and it is effectively the result of combining the probability and impact of occurrence as an estimation of the importance of such risks.

**Table 1. Priority table**

Probability of occurrence \ Impact	Low (L)	Somewhat non-disruptive (SND)	Somewhat disruptive (SD)	High (H)
Low (L)	Low priority	Low priority	Low priority	Medium priority
Somewhat unlikely (SU)	Low priority	Low priority	Medium priority	Medium priority
Somewhat likely (SL)	Low priority	Medium priority	High priority	High priority
High (H)	Medium priority	Medium priority	High priority	Very high priority

Source: Document GCF/B.10/07 titled "Initial risk management framework: methodology to determine and define the Fund's risk appetite"

## Revised risk register

Risk code		1.1	1.2
Risk category		Compliance	Compliance
Subcategory		Internal compliance breach	Regulation and sanction/embargo breach and engagement in prohibited practices
Description		Failure of staff or Board members to comply with the standards and codes of conduct, set by the GCF itself through its policies and procedures, including: Travel Policy (as appropriate), Administrative Policies of the Fund, Policies on Ethics and Conflicts of Interest, Policies on ethics and conflicts of interest for other Board appointed officials and active observers, Information Disclosure Policy, cross-subsidization between providers of grants and loans (Financial Risk Management Framework), Gender Policy and Action Plan, Fiduciary Principles and Standards, Environmental and Social Safeguards	Failure of the GCF, AE/EEs, or other related parties to adhere to the laws and regulations, including sanctions and embargoes, in jurisdictions relevant to the operations or engagements of the GCF as well as to the GCF's prohibited practices requirements and Anti-Money Laundering and Countering the Financing of Terrorism Policy (as appropriate), etc.
Inherent risk	Prob.	Somewhat unlikely	Somewhat likely
	Impact	High	High
	Priority	Medium	High
Risk tolerance		GCF will completely avoid this risk (zero tolerance)	GCF will completely avoid this risk (zero tolerance)
Mitigation		The risk will be identified and mitigated as follows: 1) All HR decisions will be screened for this risk. 2) GCF will continuously evaluate internal processes and policies (including the GCF payments process) for this risk and take corrective action as required. It will also take necessary action to improve the Compliance/Ethics Culture across GCF through adequate communication efforts and staff and Board training. 3) GCF will continuously evaluate all internal processes and policies, Funding Proposals, and GCF's overall investments in projects / programmes for potential policy breaches, and take corrective action as required.	The risk will be identified and mitigated as follows: 1) Accreditation process: Potential AEs will be screened for this risk, and accreditation decisions will be taken accordingly. GCF will continue to evaluate AEs for this risk through the ongoing AE monitoring and evaluation and take corrective action as required. 2) Projects / programmes: Concept Notes and Funding Proposals will be screened for this risk, and such evaluations will influence the final decisions taken on them. GCF will continue to evaluate projects / programmes for this risk through the ongoing project / programme monitoring and review process and take corrective action as required. 3) All HR and procurement decisions will be screened for this risk. 4) The GCF will continuously evaluate internal processes and policies (including the GCF payments process) for this risk. and take corrective action as required. It will also take necessary action to drive a Compliance/Ethics Culture across GCF. 5) The GCF will continue to monitor for changes in laws and regulations, including sanctions and embargoes, applicable to GCF and take corrective action as required. GCF will also secure necessary privileges and immunities that are not yet in place and conduct periodic exchanges with home country authorities.
Residual risk	Prob.	Low	Somewhat unlikely
	Impact	High	High
	Priority	Medium	Medium
Key risk indicator		List of compliance breaches	List of compliance breaches; List of countries and exposures where GCF invests in without privileges and immunities

Risk code		2.1	2.2
Risk category		Legal risk	Legal risk
Subcategory		Contractual breach	Non-contractual breach
Description		Financial loss, sanction, and/or reputational damage resulting from the use of defective contracts or contractual relationships	Financial loss, sanction, and/or reputational damage resulting from Non-Contractual Rights Risk (the risk that GCF's assets are not properly owned or are infringed by others, or the infringement by GCF entity of another party's rights)
Inherent risk	Prob.	Somewhat likely	Low
	Impact	Somewhat disruptive	Somewhat non-disruptive
	Priority	High	Low
Risk tolerance		GCF will take this risk in a limited, controlled amount	GCF will take this risk in a limited, controlled amount
Mitigation		<p>The risk will be identified and mitigated as follows:</p> <ol style="list-style-type: none"> <li>1) GCF will screen its legal contacts (AMAs, FAAs, procurement contracts, etc.) for this risk.</li> <li>2) GCF will continuously evaluate internal processes and policies for this risk and take corrective action as required. It will also take necessary action to improve the compliance culture across GCF.</li> <li>3) GCF will continue to monitor for changes in law applicable to GCF and take corrective action as required. GCF will secure necessary privileges and immunities that are not yet in place and conduct periodic exchanges with home country authorities.</li> <li>4) The General Counsel will review all contracts, when applicable, and take corrective action as required.</li> </ol>	<p>The risk will be identified and mitigated as follows:</p> <ol style="list-style-type: none"> <li>1) GCF will continuously evaluate internal processes and policies for this risk and take corrective action as required. It will also take necessary action to improve the Compliance/Ethics Culture across GCF.</li> <li>2) GCF will continue to monitor for changes in law applicable to GCF and take corrective action as required.</li> <li>3) The General Counsel will oversee legal documents and internal practices and take corrective action as required. GCF may use external counsel, if necessary.</li> <li>4) GCF will continue to monitor AMA and FAA commitments and take corrective action as required.</li> </ol>
Residual risk	Prob.	Somewhat unlikely	Low
	Impact	Somewhat disruptive	Somewhat non-disruptive
	Priority	Medium	Low
Key risk indicator		List of legal disputes; List of countries and exposures where GCF invests in without privileges and immunities	List of legal disputes

<b>Risk code</b>	3	4.1	4.2
<b>Risk category</b>	Reputation risk	Operational and IT risk	Operational and IT risk
<b>Subcategory</b>	N/A	GCF operational process errors	Disasters and other events
<b>Description</b>	Adverse perception which has a material effect on the credibility of GCF (beyond the Reputational damage which may be incurred due to one of the other risks in this register)	Failure to meet GCF's internal operations standards or non-compliance with external requirements that affect operations activities	Disruption of business due to natural or man-made catastrophic disasters
<b>Inherent risk</b>	<b>Prob.</b>	High	Somewhat likely
	<b>Impact</b>	Somewhat disruptive	Somewhat non-disruptive
	<b>Priority</b>	High	Medium
<b>Risk tolerance</b>	GCF will take this risk in a limited, controlled amount	GCF will take this risk in a limited, controlled amount	GCF will take this risk in a limited, controlled amount
<b>Mitigation</b>	Reputational risk can persist despite the broader risk mitigation measures in place. GCF's strategy will include a clear plan to mitigate and manage this risk <sup>1</sup> . GCF will be informed by reputational risk monitoring, which will be identified and measured in media monitoring and engagement with AEs, NDAs, CSOs, and other stakeholders. GCF will also set a stakeholder engagement plan that has to be executed in cases where reputation risk is deemed high (e.g. frequent negative international coverage on a GCF-supported project). For reputational risks resulting from the complexity of applying for GCF funds or slow, inefficient decision-making processes, GCF will provide guidance and readiness programmes for relatively inexperienced AE/EE/NDAs, and distribute materials to facilitate awareness and understanding of the process.	GCF will implement controls in its operational processes to mitigate this risk. The effectiveness of these controls will be continuously evaluated through GCF's Risk Control Self-Assessment, and corrective action will be taken to modify controls where required.	GCF will set up a business continuity plan to prepare for such events, and socialize and train the organization on it. This plan will include a cloud-centric way of holding and securing information assets, combined with mobile computing to allow staff to work remotely and a business continuity management system consistent with ISO 22301:2012.
<b>Residual risk</b>	<b>Prob.</b>	Somewhat likely	Somewhat unlikely
	<b>Impact</b>	Somewhat disruptive	Somewhat non-disruptive
	<b>Priority</b>	High	Low
<b>Key risk indicator</b>	List of adverse publicity reports; List of grievances	Funding Proposal approval time; AE accreditation approval time	List of natural catastrophes, geopolitical events, wars, and terrorism affecting GCF's operations

<sup>1</sup> This will include a Communication strategy, which includes an approach to disseminating results. In addition, this risk will be mitigated through internal processes manuals, readiness programme, accreditation process, Country Programming outreach, financial management processes of the GCF, media monitoring, and participation of observers in Board meetings.

Risk code		4.3	4.4	4.5
<b>Risk category</b>		Operational and IT risk	Operational and IT risk	Operational and IT risk
<b>Subcategory</b>		IT systems failure	Cyber attack	Staffing risk
<b>Description</b>		Disruption of business due to unavailability / inaccessibility of IT infrastructure and applications.	Misappropriation of internal data and/or information by a third party through IT means, such as system security breach, hacking, phishing attacks, and cybercrime. Also includes hacking damage and malware / virus attacks.	Operational failures, losses and other disruptions arising from the staffing model of the GCF, including staff headcount level and external consultants as well as from problems with recruitment, retention, succession planning, integrity and morale among GCF staff.
<b>Inherent risk</b>	<b>Prob.</b>	Somewhat likely	Somewhat likely	High
	<b>Impact</b>	Somewhat disruptive	Somewhat disruptive	Somewhat disruptive
	<b>Priority</b>	High	High	High
<b>Risk tolerance</b>		GCF will take this risk in a limited, controlled amount	GCF will take this risk in a limited, controlled amount	Limited, controlled amount
<b>Mitigation</b>		GCF will set up an IT system evaluation, monitoring, and back-up strategy (in the event of a failure).	GCF will set up appropriate systems to assess, monitor, and prevent breaches, and establish protocols in the case of system breaches or data theft to minimize damages.	GCF will maintain a competitive compensation package, effective performance management system, and continuous learning opportunities. GCF will also take necessary actions to reduce vacancies and turnovers, increase staff morale, and address employee concerns or complaints.
<b>Residual risk</b>	<b>Prob.</b>	Somewhat unlikely	Somewhat unlikely	Somewhat likely
	<b>Impact</b>	Somewhat non-disruptive	Somewhat non-disruptive	Somewhat non-disruptive
	<b>Priority</b>	Low	Low	Medium
<b>Key risk indicator</b>		List of IT system failures	List of information security breaches	List of complaints on employee behavior; Employee turnover rate; Vacancy rate

Risk code		5.1	5.2	6.1
Risk category		Project/programme failure risk	Project/programme failure risk	Funding risk
Subcategory		Project/programme failure: Risk of non-compliance against internal requirements	Project/programme failure: Impact risk	Funds held in Trust: Foreign exchange (FX) risk
Description		Failure of the AE/EE or other related parties to comply with GCF's internal policies, guidelines, applicable regulations, and respective agreements (e.g. AMA, FAA) with involved parties to a project/programme.	Failure of the project/programme to deliver the expected transformative mitigation and adaptation climate impact	Loss in the value of contributions due to foreign exchange rate fluctuations
Inherent risk	Prob.	Somewhat likely	High	Somewhat likely
	Impact	Somewhat disruptive	Somewhat disruptive	Somewhat disruptive
	Priority	High	High	High
Risk tolerance		GCF will take this risk in a limited, controlled amount	GCF will actively take this risk to achieve its mandate	GCF will take this risk in a limited, controlled amount
Mitigation		Concept Notes and Funding Proposals will be screened for this risk, and the evaluation will influence the decisions taken on them. In addition, the risk will also be identified and measured in the accreditation process and AE monitoring process <sup>2</sup> . GCF will also continue to evaluate projects / programmes for this risk through the ongoing project / programme monitoring and review process and take corrective action as required.	Concept Notes and Funding Proposals will be screened for this risk, and the evaluation will influence the decisions taken on them. In addition, the risk will be identified and measured in country programming outreach efforts and readiness programme. GCF will also continue to evaluate projects / programmes for this risk through the ongoing project / programme monitoring and review process <sup>3</sup> and take corrective action as required.	The risk will be monitored by the Secretariat through a contribution management system and mitigated through conversion of cash received to one of GCF's holding currencies, FX hedging, and continuous monitoring of the resulting FX position (enabling corrective action if required).
Residual risk	Prob.	Somewhat unlikely	High	Somewhat unlikely
	Impact	Somewhat disruptive	Somewhat disruptive	Somewhat non-disruptive
	Priority	Medium	High	Low
Key risk indicator		List of countries where GCF invests in without privileges and immunities; Customer Due Diligence Assessment Reports	Portfolio distribution by Project Success Risk Rating, Accredited Entities, Country, Results Area, Projects / Programmes etc.; Ongoing project delays; Impact achievements (Measurement of core adaptation and mitigation indicators)	Proportion hedged as percentage of total FX exposure

<sup>2</sup> The AE monitoring process will include monitoring of media and other public sources, and periodic interaction with NDAs.

<sup>3</sup> The project / programme monitoring and review process will include assessment based on the GCF results management framework.

Risk code		6.2	6.3	6.4
Risk category		Funding risk	Funding risk	Funding risk
Subcategory		Funds held in Trust: Policy compliance risk	Funds held in Trust: Investment risk	Funding: Liquidity risk
Description		Failure to comply with GCF's policies on funds held in Trust	Losses in the value of investments of GCF's funds held in Trust due to market movements in the price of the securities	Timing mismatch between the cash inflows and cash outflows leading to shortages in the ability of the GCF to face its payment obligations
Inherent risk	Prob.	Somewhat likely	Somewhat likely	Somewhat likely
	Impact	High	Somewhat disruptive	Somewhat disruptive
	Priority	High	High	High
Risk tolerance		GCF will take this risk in a limited, controlled amount	GCF will take this risk in a limited, controlled amount	GCF will take this risk in a limited, controlled amount
Mitigation		GCF will set investment boundaries for its Trustee. The investment portfolio will continuously be monitored against those boundaries and the boundaries will be enforced using the arrangement with the Trustee <sup>4</sup> .	GCF will set risk targets for its Trustee. The investment portfolio will continuously be monitored against those targets and the targets will be enforced using the arrangement with the Trustee. GCF will also set concentration targets for its Trustee and monitor concentration levels <sup>5</sup> .	GCF's liquidity reserve will be analyzed in each Funding Proposal, and it will guide the decision taken on the Funding Proposal. GCF will continuously monitor its liquidity position vis-a-vis its Risk Appetite through various tools, such as cash flow models and contribution management system, and take corrective action as required.
Residual risk	Prob.	Low	Somewhat unlikely	Somewhat unlikely
	Impact	High	Somewhat disruptive	Somewhat non-disruptive
	Priority	Medium	Medium	Low
Key risk indicator		Confirmation that liquid asset portfolio <sup>6</sup> is not invested against the mission of the GCF.	Average credit rating of liquid asset portfolio. Confirmation that the Fund invests only in investment grade securities. Confirmation of the average and maximum duration for liquidity reserve <sup>7</sup> and other funds (see risk appetite statement).	Cash flow projection; Liquidity reserve size vs. target; Credit defaults

<sup>4</sup> If the Interim Trustee is unable to implement these requirements, they will become applicable after the selection of the Permanent Trustee. Until that time, the GCF should monitor the Fund's adherence to these requirements to the extent possible under the current agreement.

<sup>5</sup> If the Interim Trustee is unable to implement these requirements, they will become applicable after the selection of the Permanent Trustee. Until that time, the GCF should monitor the Fund's adherence to these requirements to the extent possible under the current agreement.

<sup>6</sup> The liquid asset portfolio is defined as securities, cash or cash equivalents held in Trust or in GCF's bank accounts (see risk appetite statement).

<sup>7</sup> The GCF will set an appetite level on the size of the GCF's liquidity reserve that will be equivalent to sufficient levels to sustain net funding requirements for 1 year (see risk appetite statement).

<b>Risk code</b>		6.5	7.1	7.2
<b>Risk category</b>		Funding risk	Financial investment risk	Financial investment risk
<b>Subcategory</b>		Funding: Contribution uncertainty risk	Equity investments: Valuation shock risk	Equity investments: Exit strategy risk
<b>Description</b>		Failure to convert all pledges into contributions in total, or within the promised time frame	Severe negative shocks to valuations of GCF's equity investments	Failure of GCF to exit its equity investments
<b>Inherent risk</b>	<b>Prob.</b>	Somewhat likely	High	High
	<b>Impact</b>	High	Somewhat disruptive	Somewhat non-disruptive
	<b>Priority</b>	High	High	Medium
<b>Risk tolerance</b>		GCF will take this risk in a limited, controlled amount	GCF will actively take this risk to achieve its mandate	GCF will actively take this risk to achieve its mandate
<b>Mitigation</b>		GCF will continuously evaluate its commitment authority and encashment schedule, and risk of payment roll backs and delays through the contribution management system, periodic engagements with contributors, and media and other public sources monitoring. The Board will be kept abreast with the funding position using the resource mobilization reports.	Concept Notes and Funding Proposals will be screened for this risk, and such evaluations will influence the decisions taken on them. GCF will continue to evaluate projects / programmes for this risk through the ongoing project / programme monitoring and review process and take corrective action as required.	Concept Notes and Funding Proposals will be screened for this risk, and such evaluations will influence the decisions taken on them. GCF will continue to evaluate projects / programmes for this risk through the ongoing project / programme monitoring and review process and take corrective action as required.
<b>Residual risk</b>	<b>Prob.</b>	Somewhat unlikely	High	High
	<b>Impact</b>	High	Somewhat disruptive	Somewhat non-disruptive
	<b>Priority</b>	Medium	High	Medium
<b>Key risk indicator</b>		Deviation from expected payment, deposit or encashment schedules; Percentage of pledges remaining unsigned; Percentage exposure to contributors (by contributor, financial instrument)	Changes in equity valuations relative to the initial equity investment per Funding Proposal; Changes in overall valuation of GCF's equity investment portfolio	List of equity investments without a clear exit strategy

Risk code		7.3	7.4
Risk category		Financial investment risk	Financial investment risk
Subcategory		Credit: Counterparty risk	Credit: Convertibility and Transfer Risk
Description		The risk that a GCF loan financing recipient will become unwilling or unable to satisfy the terms of a loan obligation to the GCF, or that the value of a loan asset declines due to a deterioration in the creditworthiness of the issuer	The risk that a government will impose a moratorium on, or otherwise prohibit private sector obligors from servicing their foreign currency debts in a timely manner by restricting the ability of the obligor to convert a local currency balance to a foreign currency balance and/or transfer a foreign currency balance to its foreign currency creditors.
Inherent risk	Prob.	High	Somewhat unlikely
	Impact	Somewhat non-disruptive	Somewhat non-disruptive
	Priority	Medium	Low
Risk tolerance		GCF will actively take this risk to achieve its mandate	GCF will actively take this risk to achieve its mandate
Mitigation		Concept Notes and Funding Proposals will be screened for this risk, and such evaluations will influence the decisions taken on them. Accreditation decisions will also be dependent on credit risk assessment. GCF will also continue to evaluate projects / programmes / AEs for this risk through the ongoing project / programme and AE monitoring (including credit risk monitoring) and review process and take corrective action as required.	Concept Notes and Funding Proposals will be screened for this risk, and such evaluations will influence the decisions taken on them. GCF will continue to evaluate projects / programmes for this risk through the ongoing project / programme monitoring and review process and take corrective action as required. NDAs will be involved to further mitigate this risk.
Residual risk	Prob.	High	Low
	Impact	Somewhat non-disruptive	Somewhat non-disruptive
	Priority	Medium	Low
Key risk indicator		Deviation of reflows from loan disbursements (split by deviations driven by counterparty risk vs. convertibility and transfer risk); List of delinquent loans with degree of delinquency and delinquent amount (split by delinquencies driven by counterparty risk vs. convertibility and transfer risk); Portfolio distribution by Credit Risk Rating	Deviation of reflows from loan disbursements (split by deviations driven by counterparty risk vs. convertibility and transfer risk); List of delinquent loans with degree of delinquency and delinquent amount (split by delinquencies driven by counterparty risk vs. convertibility and transfer risk)

## Annex VI: Risk management framework component II – risk appetite statement

### I. Introduction

1. Through decision B.13/36, the Board requested the Secretariat, in consultation with the RMC, to develop the necessary methodologies to enhance the Secretariat’s risk management capacity. This document presents the initial risk appetite statement to guide the level of risk taking by the Green Climate Fund (“GCF”, “the Fund”) and, where required, steer mitigation of such risks. This document is part of the broader Risk Management Framework (“RMF”).
2. In order to achieve its mission to promote paradigm shift towards low-emission and climate-resilient development pathways, the GCF will be required to take various forms of risks. The definition of these risks is included in the risk register (part of the RMF).
3. This document<sup>1</sup> provides a statement of the levels of risk that the GCF is willing to take (the Fund’s “appetite” for risk). The risks are differentiated across the types defined in the risk register (part of the RMF), and are further differentiated between risks inherent with running a large fund, and risks specific to the considered funding proposals.
4. The risk appetite statement is the desired risk profile for the GCF as a whole across the full spectrum of risk-types defined in the risk register (another component of the RMF).
5. The purpose of the risk appetite statement is to provide guidance on:
  - (a) Overall level of risk that GCF is willing to take to achieve its objectives.
  - (b) Types of risks to be monitored.
  - (c) Qualitative appetite statements and quantitative metrics that can be cascaded to specific business units to guide their day-to-day operations.
6. The risks faced by the GCF range from those for which the GCF has no appetite (e.g. compliance risks) to those that the GCF has a relatively high risk appetite, e.g. certain Funding Proposal (“FPs”, “proposals”) risks. Overall, the GCF has zero-tolerance for illegal practices and integrity or policy breaches, relatively moderate risk tolerance for activities that arise as a result of operating a global investment fund, and considerable risk tolerance for activities necessary to realize GCF’s mandate.

### II. Linkages with previous decisions and other documents

7. At its seventh meeting, the Board requested the Secretariat, in consultation with the RMC, to prepare an analysis of the Fund’s potential risk appetite under different key assumptions as part of its financial risk management framework (decision B.07/05).
8. Furthermore, the Board took note of document, B.09/13 “Initial Risk Management Framework: Survey of methodologies to define and determine risk appetite” (decision B.09/06).
9. The Board requested the Secretariat, in consultation with the RMC, to present an initial risk appetite statement for the GCF as per decision B.10/08.
10. This document is part of a staged evolution of the RMF at the GCF, as the Fund seeks to refine its vision around risk taking and risk culture. This document builds on previous decisions undertaken by the Board:
  - (a) Paragraph 2 of the Governing Instrument established GCF’s mission to “promote the paradigm shift towards low-emission and climate-resilient development pathways by

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<sup>1</sup> This document does not specify the process of risk assessment, the investment criteria for the GCF, or methods of mitigating breaches. Such specific details are discussed in other policy documents.

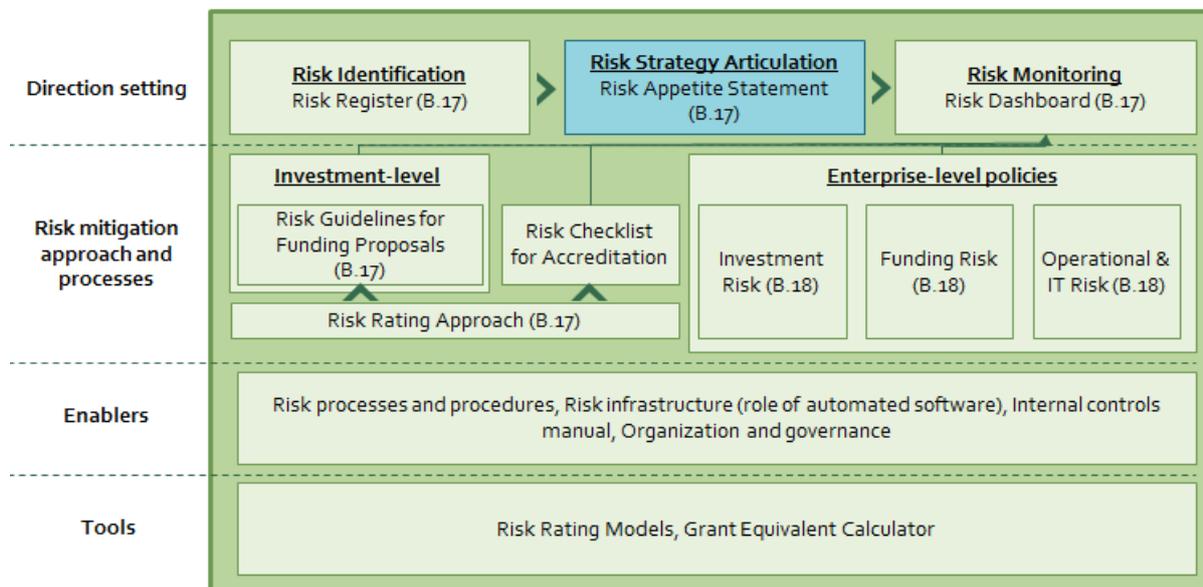
providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change,” taking into consideration the needs of developing countries particularly vulnerable to the adverse effects of climate change.

- (b) Decision B.06/06 requested the GCF to strive to balance the portfolio based on a 50:50 theme-based allocation between mitigation and adaptation, and within adaptation, at least 50% allocation for particularly vulnerable countries (including Least Developed Countries (“LDCs”), Small Island Developing States (“SIDS”), and African States).
  - (c) Decision B.07/05 established the initial financial risk management framework of the GCF, consisting of financial risk policies, a financial risk monitoring and reporting management system and financial risk governance arrangements. The financial risk policies were further elaborated through decision B.08/13 as part of the policies for contributions. Elements of the financial risk monitoring and reporting management system were defined through decision B.08/18 (financial reporting and the external auditing process) and decision B.BM-2015/06 (internal control framework).
  - (d) Decision B.07/05 also requested the Secretariat to start the process of analysis to determine the risk appetite of the GCF. Through decision B.09/06, the Board took note of a survey of methodologies to define and determine the risk appetite and through decision B.10/08 it adopted the risk dashboard, its related risk categories and subcategories, and the methodology to be followed by the GCF to set its risk appetite.
11. This document also has linkages with the following documents:
- (a) Financial Risk Management Framework (GCF/B.07/05);
  - (b) Investment Framework (GCF/B.07/06);
  - (c) Further development of the Initial Results Management Framework (GCF/B.08/07);
  - (d) Policies for Contributions to the Green Climate Fund (GCF/B.08/16);
  - (e) Initial Risk Management Framework: Survey of methodologies to determine and define risk appetite (GCF/B.09/13);
  - (f) Further development of the Initial Investment Framework: Sub-criteria and Methodology (GCF/B.09/07);
  - (g) Initial Risk Management Framework: risk register, risk appetite update and initial risk guidelines for credit and investment (GCF/B.12/17); and
  - (h) Initial Strategic Plan for the GCF: the need for improved and coherent guidance on the Fund’s investment criteria and risk appetite (GCF B.12/32 Annex I).

### III. Objective

12. This document is a part of the comprehensive GCF RMF with the objective of setting the appropriate level of risk taken by the GCF. The components of the framework are presented below in Figure 1.

**Figure 1. RMF components (in brackets for each component: the Board meeting when it is planned to be discussed).**



13. The objective of this document is to propose an initial risk appetite statement for the Fund. The risk appetite describes the overall level of risk that the GCF is willing to take in order to achieve its objectives. This statement will encompass:

- (a) A set of top-down, Board level directions to steer level of risk taking.
- (b) An interpretation of the Governing Instrument into practical risks faced in day-to-day operations.
- (c) An emphasis on key risks that could compromise the ability to achieve GCF’s strategic mandate.
- (d) Quantitative metrics and qualitative statements describing acceptable risk levels.

#### **IV. Structure of the risk appetite statement**

14. The GCF defines three levels of appetite for risk taking, from zero tolerance to considerable tolerance, that differ across risk types:

- (a) Prohibited risk taking (“zero risk tolerance”): Activities that the GCF will not engage in and for which the GCF will have zero risk tolerance.
- (b) Risks to be carefully managed and where practicable minimized (“moderate risk tolerance”): Risk taking based on activities that are a by-product of operating a materially significant fund.
- (c) Risks taken to achieve strategic impact (“considerable risk tolerance”): Risks required to be taken to fulfil the GCF mandate, to be compensated through climate change impact.

## V. Risk appetite statement

### 5.1 Overall statement of risk appetite

15. The GCF is required to take risks in order to fulfil its mandate, however such risks will be carefully managed:

- (a) The Fund will uphold the highest level of integrity in conducting its operations and hence has zero-tolerance towards partaking in prohibited practices, breaches of international sanctions / embargoes, by staff, Board members, counterparties and partners (especially Accredited and Executing Entities (“AEs” and “EEs”). The Fund will also have zero tolerance for violations of applicable internal policies by staff or Board members.
- (b) The GCF seeks a stable and moderate enterprise risk profile which will enable the Fund to ensure adequacy and predictability of financial resources, maintain a well-balanced portfolio of projects/programmes consistent with the principles of country ownership and the Conference of the Parties’ guidance, and operate in a transparent, accountable, and efficient manner.
- (c) In order to realize significant impact and promote paradigm shift to meet the Fund’s strategic objectives, the Fund is willing to accept considerable uncertainties around investment risks in return for impact potential, to be evaluated on a case-by-case basis recognizing specifics of each proposal. The Fund will strive to mitigate programme risks to provide reasonable assurance that investments can fulfil their stated objectives.

### 5.2 Tolerance level 1: zero risk tolerance

#### 5.2.1 Compliance risk

##### **Regulation and sanction/embargo breach and engagement in prohibited practices**

16. The GCF will have zero tolerance towards its staff, Board members, counterparties and partners (especially AEs and EEs) breaching the Fund’s prohibited practices requirements, and Anti-Money Laundering, Countering the Financing of Terrorism Policy (as appropriate), etc.

17. The GCF will also have zero tolerance for working with parties subject to sanctions, embargoes, or similar measures issued by reputable international organizations such as the United Nations (“UN”).

#### 5.2.2 Internal compliance breach

18. The GCF will have zero tolerance towards its staff and Board members breaching the following policies:

- (a) Policies on Ethics and Conflicts of Interest (for the Executive Director and external members of the GCF panels and groups) (B.10/13/Rev.01).
- (b) Information Disclosure Policy (B.12/35).
- (c) Administrative Policies of the Fund (BM-2014/01).
- (d) Financial Risk Management Framework (B.07/05): cross-subsidization between providers of grants and providers of loans.
- (e) Gender Policy and Action Plan (B.09/10).

- (f) Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund's Fiduciary Principles and Standards and Environmental and Social Safeguards (B.07/02).
19. The above lists of policies should be updated on a quarterly basis.

## 5.3 Tolerance level 2: moderate risk tolerance

### 5.3.1 Concentration risk

20. To ensure that the GCF maintains a diverse portfolio to optimize deployment of its financial resources, the Fund will maintain prudential risk appetite levels on the amount of funding allocated to result areas, countries, and projects. The GCF will monitor its exposure levels (in nominal amount of cumulative GCF cash transfers and funding approvals for ongoing projects at a Fund level, i.e. for PSF and DMA combined) for the following:

- (a) The GCF will target no more than [50%] of total investible amount into a single results area<sup>2</sup>.
- (b) The GCF will target no more than [10%] of total investible amount into a single proposal.<sup>3</sup>

21. The total investible amount is defined as the sum of the GCF's liquid asset portfolio size, the nominal amount of GCF's unencashed promissory notes with fixed encashment dates deposited with the Trustee, and the total nominal amount disbursed to live projects / programmes. The liquid asset portfolio is defined as securities, cash or cash equivalents held in Trust or in GCF's bank accounts.

22. In addition, the GCF will monitor its exposure by country, AE and EE<sup>4</sup> and the impact of this exposure on other risk dimensions (e.g. credit risk, equity risk, impact risk). The Fund will also balance its deployment of funding instruments (i.e. grant, equity, loan, and guarantees) in accordance with its investment policies and guidelines.

### 5.3.2 Foreign Exchange ("FX") risk

23. The GCF faces two major sources of FX Risk:

- (a) FX risk on the Asset side. The GCF operates with financial instruments in holding currencies that could be repaid in currencies other than holding currencies to meet the Fund's mandate.
- (b) FX risk on the Liability side. Receiving contributions from countries in currencies that do not match the currency in which future funding proposals will be denominated. This can further be distinguished between:
- (i) Contributions through cash received and promissory notes encashed, held in the Trustee account;
  - (ii) Contributions through promissory notes received but not yet encashed;
  - (iii) Contributions through cash not yet received and promissory notes not yet deposited or encashed.

---

<sup>2</sup> Results area is defined as one of: Energy access and power generation; Low emission transport; Building, cities, and industries and appliances; Forestry and land use; Most vulnerable people and communities; Health and well-being, and food and water security; Infrastructure and built environment; Ecosystem and ecosystem services.

<sup>3</sup> Refer to risk dashboard for examples.

<sup>4</sup> The GCF will review annually whether to include an appetite level for concentration by country, AE and EE.

24. While the overall FX risk appetite for FX risk is moderate, the fund has markedly different appetite across the above categories.
25. Investments of the GCF that implement funding proposals with local currencies are subject to a risk of repayment in holding currencies. The asset side FX risk can be of considerable risk tolerance providing the Board a broader set of investment options, in line with the Fund's mission to promote paradigm shift towards low-emission and climate-resilient development pathways.
26. Contributions already received and encashed will be held in holding currencies, converted on receipt of funds, at a proportion determined by the Secretariat based on their expectation of future cash outflows (referred to in paragraph 23 (b) (i)).
27. Contributions through promissory notes received but not yet encashed (referred to in paragraph 23 (b) (ii)), and contributions through cash not yet received and promissory notes not yet deposited and unencashed (referred to in paragraph 23 (b) (iii)) are not required to be hedged, however the Secretariat may decide to implement a hedging strategy for additional conservatism. Any such hedging must be guided by a clear policy to be approved by the Board. Further, the Secretariat must ensure that the GCF has all necessary arrangements (models, agreements etc.) in place before it engages in any hedging.

### 5.3.3 Funds held in trust risk

28. The GCF will also actively manage its liquid asset portfolio through the Trustee in accordance with the Fund's investment policy or, should the Fund not have an investment policy, by the Trustee's default investment strategy. The eligibility criteria for the liquid asset portfolio securities will also be guided in the same manner. The GCF will be prudent in establishing liquid asset portfolio investment policies and guidelines to maintain a conservative risk profile with the following appetites:
- (a) The Fund will only invest in investment grade securities;
  - (b) The Fund will target average credit rating of [AA] equivalent by international rating agencies, or an equivalent risk metric approved by the Board, for its liquid asset portfolio;
  - (c) The funds earmarked for the Fund's liquidity reserve will only be invested in securities with duration no longer than one year. All other funds in the liquid asset portfolio (representing the Fund's excess liquidity) will only be invested in securities with duration no longer than five years and average duration no longer than two years; and
  - (d) In its liquid asset portfolio, the GCF will refrain from making investments that go against the Fund's mission to promote paradigm shift towards low-emission and climate-resilient development pathways. The Trustee will monitor the asset allocation of the liquid asset portfolio in this regard and report to the GCF on it.
  - (e) If the Interim Trustee is unable to implement these requirements, they will become applicable after the selection of the Permanent Trustee. Until that time, the GCF should monitor the Fund's adherence to these requirements to the extent possible under the current agreement.

### 5.3.4 Reputational risk

29. Given that the GCF will operate in new, transformational areas that may be untested, continued support from global stakeholders will be essential to the GCF's success, and the GCF will seek to actively engage stakeholders and plan and respond to reputational issues which may arise. That being said, the GCF will manage the reputational risk through stringent monitoring and oversight policies applied across all GCF operations.

30. The GCF will monitor and manage the following:
- (a) Adverse publicity;
  - (b) Grievances from projects.

#### 5.3.5 Project/programme: risk of non-compliance against internal requirements

31. The GCF is heavily reliant on the intermediary entity, the AE, for all stages of operation, from project sourcing and due diligence to project execution, governance, and monitoring. The GCF has policies and documents in place, which set the standards for actions by AEs, EEs and other partners, and there is limited risk appetite to breaches of those standards:

- (a) Gender Policy and Action Plan (B.09/10).
- (b) Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund's Fiduciary Principles and Standards and Environmental and Social Safeguards (B.07/02).
- (c) Accreditation Master Agreement.
- (d) Funded Activity Agreement.
- (e) Local regulations that are not explicitly covered in the Interim Policy on Prohibited Practices.

32. In order to further mitigate this risk, the GCF will monitor the list of countries (and corresponding approved funding) in which the Fund is investing but has not secured privileges and immunities.

#### 5.3.6 Legal risk

33. Legal risk for the GCF is the risk of loss caused by defective transactions, penalties or sanctions originating from lawsuits filed against the Fund, sanctions pronounced by a regulatory or government body, and changes to legal frameworks. The GCF will manage its legal risk by closely monitoring the number of any legal disputes that arise across the operations of the GCF.

#### 5.3.7 Funding contribution uncertainty risk and liquidity risk

34. Predictable funding is essential for the GCF to achieve its objectives. The GCF will take necessary actions to protect the predictability of its financial resources, including diversifying sources of contributions across a range of contributor countries, managing cancellation, postponement, and other changes in encashment schedules, ensuring to convert the pledges or encashment of promissory notes in a timely manner, and preventing over-concentration of contributions to be encashed. This will effectively help the GCF manage any risks associated with cash flow mismatches, that is, mismatch that may arise between the effective duration of the contributions and commitments with regards to pledge conversions, disbursements, or reflow. Failure to manage cash flow could have an impact on the Fund's ability to undertake and fund projects/programmes.

35. The GCF will ensure sufficient liquidity at all times. The GCF will set an appetite level on the size of the GCF's liquidity reserve that will be equivalent to sufficient levels to sustain net funding requirements for 1 year. This threshold should be reviewed in the future, when GCF's cash management practices are better established. Net funding requirements over a period of time are defined as the planned outflows over the period of time (including disbursements and Board and Secretariat expenses) net of the planned contribution encashments over the same period of time. It should be noted that at present, GCF does not plan to use planned project

reflows to reduce Net funding requirements. This decision should be reviewed in the future once reflows become a significant part of GCF's planned inflows.

36. Currently the GCF approves FPs only if there is a known source of funds from contributions rather than reflows. Further at present the GCF does not plan to depend on project reflows for its liquidity needs. In the future, if the GCF starts depending on project reflows to meet liquidity needs, the Board may consider maintaining an alternate source of funding for the GCF to cover for unexpected shortfalls or delays in reflows.

37. The GCF will also monitor the following areas:

- (a) Projection of expected net inflows and outflows and deviations from expected commitment schedules;
- (b) Concentration of funding contributors.

#### 5.3.8 Operational and IT risk

38. The Fund will actively manage any operational and IT risks that may arise across all stages of Fund operations, including process and execution, human resources ("HR"), systems and information, and catastrophic events, and business continuity risks that may jeopardize the Fund's day-to-day operations.

39. To do so, the GCF will closely monitor the following risk areas:

- (a) Timelines for FP approval and target timelines for AE approval.
- (b) Vacancy rate, employee turnover rate and internal or external complaints on employee behaviour.
- (c) Number of information security breach attempts, and number of system failures.
- (d) Natural catastrophe occurrences, geopolitical events, wars, and terrorism.

### 5.4 Tolerance level 3: considerable risk tolerance

#### 5.4.1 Financial investments: equity investments risk

40. The GCF will utilize equity investments, accepting the fact that such investments may pose considerable financial risk. The Fund will seek to understand and manage the associated risks, such as possibility of decline in equity valuation (resulting in decline in return on equity investment below target) or illiquid equity markets that may affect the GCF's exit. The GCF will regularly monitor changes in equity valuations relative to the initial equity investment through the AE during the project lifecycle, depending on accounting requirements of the target country.

#### 5.4.2 Financial investments: credit risk

41. The GCF will actively take credit risk to meet its strategic mandate of promoting paradigm shift towards low-emission and climate-resilient development pathways. The GCF is willing to take on risks that other investors will not take.

42. The GCF will aim to utilize its investments to crowd-in other debt, and to enhance the credit worthiness of a project. The GCF will also enter relatively high risk transactions, such as junior positions in credit structures or being the sole investor, in order to meet its strategic mandate.

43. The GCF will set an initial required cushion for loss reserves being equal to 20%<sup>5</sup> (in grants) of the face value of the loan contribution provided to the Fund by the loan contributors for non-performing loans, and the adequacy of the cushion will be reviewed at the end of the Initial Resource Mobilization (IRM) period. Loan cushions will not count toward grant equivalency or individual debt limit calculations. The GCF will actively monitor the credit performance of its funded portfolio.

44. If the loan contributions provided to the Fund grow in the future and become a significant portion of its investible amount, the GCF might consider updating this appetite statement to further mitigate the risks of excessive credit losses, in order to ensure that the GCF is able to repay the loan contributions.

#### 5.4.3 Project/programme programme failure: impact risk

45. The GCF will manage its project and programme risks, which include project governance, execution, impact, and monitoring, as well as country risks that may impede successful execution, to maximize the possibility of successful execution and delivery of the desired impact. This will involve ensuring sufficient technical and institutional capabilities of the AE/EEs and community readiness (awareness, preparation, commitment); monitoring of country risks, including natural disasters, climate shocks, poor infrastructure, and economic and political risks, as well as country ownership status. The GCF will closely monitor the following areas:

- (a) Projects delays or slippages
- (b) Impact achievements based on the GCF results framework
- (c) Distribution of cumulative cash transfers and funding commitments for ongoing projects by Project Success Rating and Credit Risk Rating<sup>6</sup>

## VI. Effective date

46. The provisions of this risk appetite statement will take effect on September 1<sup>st</sup> 2017. If the Interim Trustee is unable to implement the requirements in the risk appetite statement, they will become applicable after the selection of the Permanent Trustee. Until that time, the GCF should monitor the Fund's adherence to these requirements to the extent possible under the current agreement.

## VII. Revisions to the risk appetite statement

47. The overall risk appetite will be revised and submitted to the Board for approval; (i) whenever a new or revised Fund Strategy is formulated; or (ii) the Board or the RMC finds it relevant to review the statement due to major changes in related policies.

## VIII. Reporting of risk appetite

48. The Secretariat will integrate the GCF's risk appetite tolerance levels into the risk dashboard (part of the RMF) and risk register (part of the RMF) based on the risk monitoring and reporting management system under the RMF. The risk appetite will be reported to the Board through the risk dashboard. The risk dashboard consists of regular snapshots of the Board-agreed risk categories and subcategories that will be tracked by the Secretariat, the Risk

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<sup>5</sup> Policies for Contributions (GCF/B.08/16)

<sup>6</sup> Risk ratings are discussed in the risk rating approach document (part of the RMF).

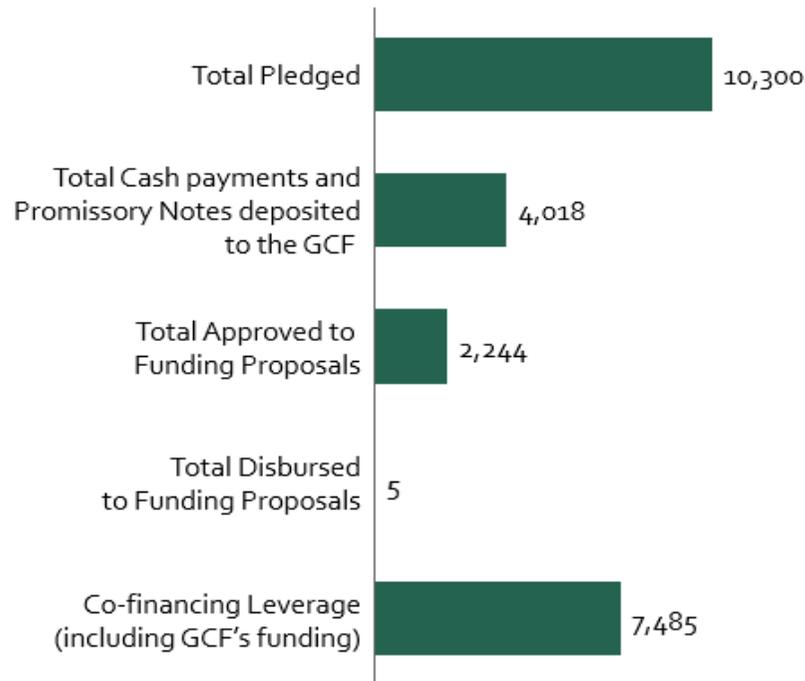
Management Committee and the Board. This reporting will be the basis for continuous review and updating of the Fund's risk appetite and risk management practices. The Fund would need to conduct risk control and self-assessment, a process of identification, assessment, effective internal control and action plans related to high-risk events, in a timely manner, in order to ensure the robustness of the risk framework. Such periodic reporting from the Secretariat will enable the Board to review the evolution of the risk borne by the Fund and to make any necessary adjustments.



## II. Overview of the portfolio of the GCF

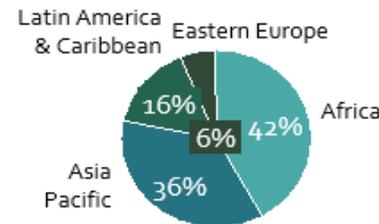
### Key Portfolio Metrics (in USD m)

As of Mar 2017, based on GCFTF Financial Report

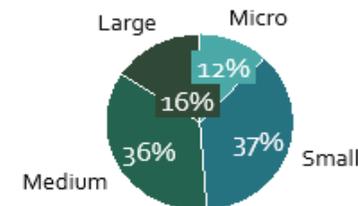


### Approved Proposal Portfolio Distribution<sup>1</sup> (by \$)

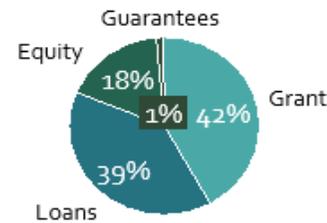
By region (by # of projects)<sup>2</sup>



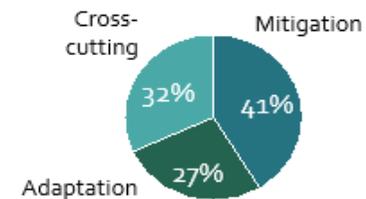
By project size (by # of projects)<sup>2</sup>



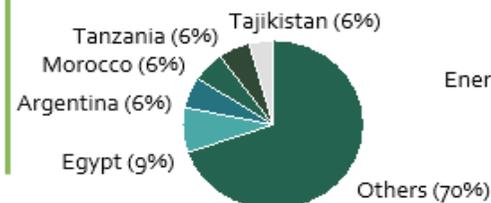
By financial instrument (by \$)<sup>2</sup>



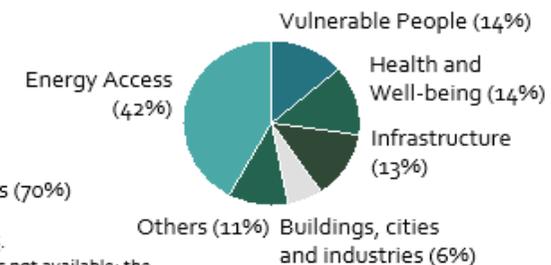
By target areas (by \$)<sup>2</sup>



By countries (by \$)<sup>3</sup>



By result areas (by \$)<sup>3</sup>



Sources: Key portfolio metrics: GCFTF Financial Report (as of 31 Mar 2017), iPMS. Approved Proposal Portfolio Distribution: GCF website, iPMS.

1. Projects / programmes spanning across multiple countries, results areas, etc. are split equally among them, as specific allocation proportion is not available; the total amount (in the denominator) is the Total Approved to Funding Proposals (\$2.244 m) 2. Accessed from GCF website 3. Analysis based on iPMS data.

### III. Concentration risk and funding risk

DRAFT – DATA BEING VALIDATED

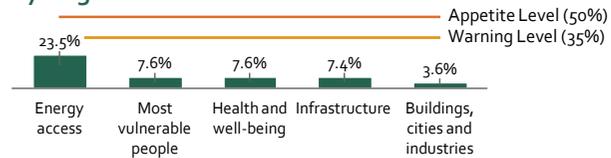


### Concentration risk and funding risk

#### Investment Concentration by Approved Funding<sup>1</sup>

(Denominator is the investible amount: ~\$4 billion)

##### By single results area



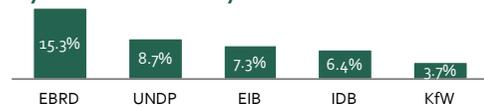
##### By country

Note: to be developed

##### By single Funding Proposal

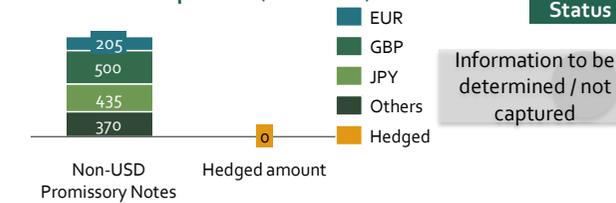


##### By Accredited Entity



Key: ● No breach ● Warning level ● Above Appetite ● TBD

#### PN<sup>2</sup> FX Risk Exposure (in USD M)



#### Liquid Asset Portfolio<sup>3</sup>

Weighted Average Credit Rating:

Information to be determined / not captured  
AA

No investments against GCF's mission:

Information to be determined / not captured

#### Projected Liquid Asset Portfolio at Year End<sup>4</sup> (USD m)



Source: IPMS, GCF Financial Report (as of 31 Mar 2017), GCF Division of Support Services (DSS) – Finance, Status of Initial Resource Mobilization process (B.16/Inf.10), GCF Report on Audits of Financial Statements for year ended Dec 31, 2016  
 1. Ratios measured as (Notional amounts approved / total investible amount). As of Mar 2017, the denominator is USD 4 billion. Numerators are collected from IPMS, as of 25 May 2017. Projects/programmes spanning across multiple countries, results areas, etc. are split equally among them, as specific allocation proportion is not available 2. Promissory Notes deposited to the GCF as of Mar 2017, based on Financial Report by the Interim Trustee. Other non-USD promissory notes includes Swedish Krona 3. If the Interim Trustee is unable to implement these requirements, they will become applicable after the selection of the Permanent Trustee. 4. Calculated as cash + Promissory Notes to be encashed in 2017.

#### IV. Project/programme failure risk and illegal practices / integrity breach /policy breach risk

##### Projects / Programmes with Significant Issues / Delays<sup>1</sup>

Project / Programme	Issue	Impact	Resolution Strategy
	None		

##### Illegal Practices and Integrity Breaches in the last 2 years

Status

Description	Date
Description #1	1/1/2017
Description #2	1/1/2017
Description #3	1/1/2017
Description #4	1/1/2017

Information to be determined / not captured

##### Policy Breaches in the last 2 years<sup>2</sup>

Description	Date
None	

Key:  No breach  Warning level  Above Appetite  TBD

1. GCF Portfolio Monitoring Unit (PMU) has not recorded any significant issues or delays in current projects / programmes.
2. GCF Independent Redress Mechanism (IRM) has not received any complaints regarding policy breaches to date.

## V. Financial investment risk

### List of Non Performing Credits<sup>1</sup> (Not applicable as of 22 May 2017)

FP#	Description	Delinquency Status (days past due)	Amount Overdue / Total (USD m)
FPoXX	Description #1	XX	XX
FPoXX	Description #2	XX	XX
FPoXX	Description #3	XX	XX
FPoXX	Description #4	XX	XX
FPoXX	Description #5	XX	XX

**Total Non-Performing Loans in GCF's portfolio:**

Information not applicable

### List of Equity Investments<sup>2</sup> (in USD M)

FP#	Original Valuation	Current Valuation	Key Risks
FPo05	5.5	Not valued yet	

**Total loss / gain on GCF's equity portfolio:**

0%  
(0 m)

1. No project reflows had been due to the GCF as of 22 May 2017.

2. As of March 2017

Source: iPMS, GCF Private Sector Facility (PSF), Division of Mitigation and Adaptation (DMA), and Portfolio Monitoring Unit (PMU)

## **Annex VIII: Risk management framework component IV – “Risk guidelines for funding proposals”**

### **I. Introduction**

1. Through decision B.13/36, the Board requested the Secretariat, in consultation with the Risk Management Committee (“RMC”), to develop the necessary methodologies to enhance the Secretariat’s risk management capacity. This document presents the “Risk guidelines for funding proposals” – one of the developed methodologies.
2. Paragraph 2 of the Governing Instrument for the Green Climate Fund (“GCF, “the Fund”) defines the purpose of the Fund as follows: “In the context of sustainable development, the Fund will promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change”.
3. The GCF will have to take on certain risks to meet this purpose. When deploying its financial resources towards projects with positive climate change impact potential, the Fund will assess the investment risks and enforce appropriate controls. “Risk guidelines for funding proposals” describe the approach to such risk assessment.
4. This document<sup>1</sup> provides guidelines for the risk assessment of Funding Proposals (“FPs”, “proposals”) and Concept Notes (“CNs”) by the GCF. The goal of these guidelines is to ensure that the risks relevant to the GCF are appropriately understood and addressed in a standardized manner. This document divides guidelines into four types:
  - (a) Guidelines for assessing the risk of the project / programme failing to deliver its target impact.
  - (b) Risk guidelines for setting funding terms and conditions.
  - (c) Guidelines for assessing alignment with GCF’s portfolio level risk limits.
  - (d) Guidelines for assessing compliance with GCF’s policies and legal requirements.
5. All proposals under review should be assessed using these guidelines. This assessment will be included as a part of the Secretariat Review to be reviewed by the Board when considering the proposal for approval.

### **II. Linkages with previous decisions and other documents**

6. The “Risk guidelines for funding proposals” are a part of a broader Risk Management Framework (“RMF”) (discussed in more detail in Section III). The Funding Risk, Investment Risk, and Operational and IT Risk Policies documents formalize measurement and mitigation of the risks. The risk rating approach document describes the methodology of applying ratings to assess particular risks. Previous decisions and documents relevant to “Risk guidelines for funding proposals” are listed in Table 1.

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<sup>1</sup> The guidelines contained in this document do not specify appropriate risk levels or investment criteria for the GCF. The opinion on whether the risks are acceptable is delivered as an expert assessment in the Secretariat Review - these guidelines define the required assessment dimensions and process.

**Table 1. Linkages to previous decisions and documents.**

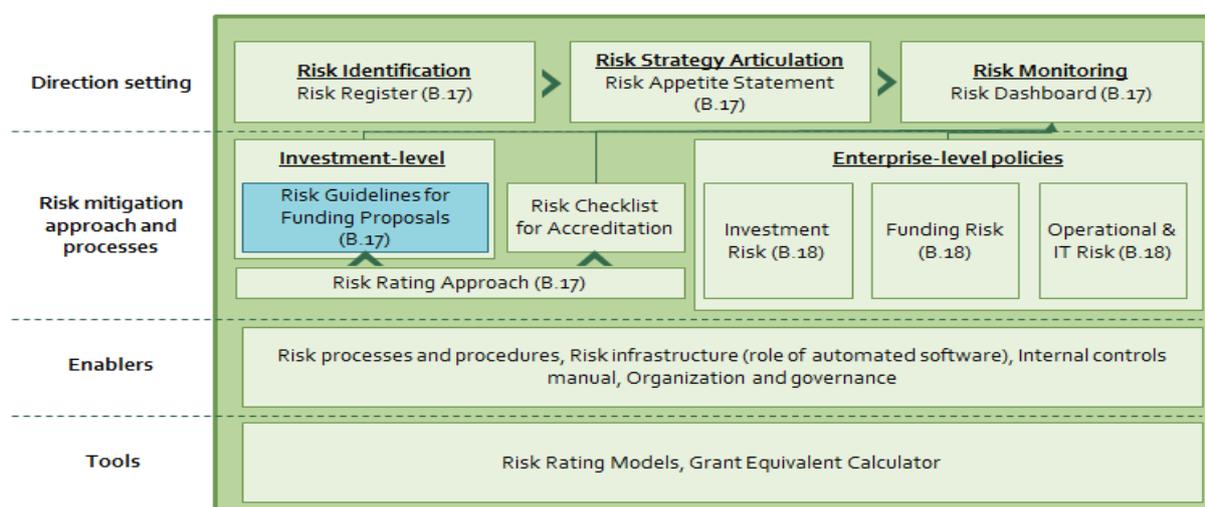
<b>Document</b>	<b>Relevance</b>
GCF/B.13/27/Rev.02 “Interim Risk and Investment Guidelines”	Previous document including proposal level guidelines for risk assessment (superseded by this document).
Governing instrument for the GCF	Access modality and accreditation (para. 45): “Access to Fund resources will be through national, regional and international Implementing Entities accredited by the Board” Financial instruments (para. 54): “The Fund will provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board. Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable. The Fund will seek to catalyse additional public and private finance through its activities at the national and international levels.”
GCF/B.05/07 “Business model framework: terms and criteria for grants and concessional loans”	Guiding principles (annex II, para. (b)): Guiding principles applicable to public sector operations: <ol style="list-style-type: none"> <li>1. “Grant elements should be tailored to incremental cost or the risk premium required to make the investment viable;</li> <li>2. Concessional terms should not displace investments that would otherwise have occurred, including for private sector investment;</li> <li>3. Overall levels of public debt in the recipient country should be taken into account so as not to encourage excessive indebtedness.”</li> </ol> Guiding principles applicable to private sector operations: <ol style="list-style-type: none"> <li>1. “Structure terms on a case-by-case basis to address specific barriers;</li> <li>2. Minimize concessional terms by assessing needs, market conditions and other factors;</li> <li>3. Avoid distortion and crowding out commercial financing;</li> <li>4. Maximize leveraging of other financing, including public and private financing;</li> <li>5. Promote long-term financial sustainability; and</li> <li>6. Apply due diligence to assess the risk to the investment“</li> </ol>
GCF/B.07/05 “Financial Risk Management Framework”	Definition of the initial financial risk principles, e.g. para. 6: “By their nature, these activities and technologies would at times assume a higher level of risk than conventional investments undertaken on the market.”
GCF/B.10/inf. 10 “Brief guideline on the application of the case-by-case provisions in the financial terms and conditions of the Fund’s instruments”	Level and structuring of concessionality (para. 26): “(…) the Fund will structure terms on a case-by-case basis to address specific barriers, where the grant element of concessional finance is tailored to provide the appropriate incentive to facilitate the implementation of mitigation and adaptation activities.”
GCF/B.12/32 Annex I: Initial Strategic Plan for the GCF	Enhancing Accessibility and Predictability: “Signal more clearly what kinds of projects and programmes it is looking to finance. This requires providing improved and coherent guidance on the Fund’s investment criteria, risk

	<p>appetite, standards and processes to be published on the website and communicated through the Fund’s communication channels and the Readiness Programme.”</p> <p>Regarding Funding Proposals credit and project / programme risk approach, the GCF has the ability to:</p> <ul style="list-style-type: none"> <li>• Programme and manage financing at scale;</li> <li>• Engage in partnerships with both public and private actors at various levels;</li> <li>• Take on risks that other funds/institutions are not able or willing to take including risks associated with deploying innovative climate technologies;</li> <li>• Pilot and potentially scale-up and replicate innovative approaches;</li> <li>• Deploy the full range of financial instruments at its disposal;</li> <li>• Leverage additional financing inputs from innovative and alternative sources; and</li> <li>• Leverage its status as an operating entity of the financial mechanism of the UNFCCC to set new standards with regard to country ownership, direct access and level of ambition impacting the global practice of climate finance beyond its immediate engagement.</li> </ul>
<p>GCF/B.12/17 “Initial Risk Management Framework”</p>	<p>Defined the initial Risk Register, Risk Appetite, and Risk Guidelines for Credit and Investment</p>

### III. Objective

7. This document is a part of the comprehensive GCF RMF, which has the objective of setting the appropriate level of risk taken by the GCF, and establishing the risk management and mitigation approach and processes. The guidelines support the notion that the GCF will actively take credit risk to meet its strategic mandate of promoting paradigm shift towards low-emission and climate-resilient development pathways, and that the GCF is willing to take on risks that other investors will not take. The components of the framework are presented in Figure 1.

**Figure 1. RMF components (in brackets for each component: the Board meeting when it is planned to be discussed).**



8. The objective of this document is to serve as a guideline for the risk analysis required as a part of the review of FPs. The Secretariat can leverage this document as a guide for risk factors to be included in the proposal assessment process, ensuring a consistent view on risk assessment to support Board decisions.
9. These guidelines are applicable at an individual FP level. Assessment of a particular proposal should also be performed in conjunction with a broader portfolio and enterprise-level risk management, e.g. managing concentration risks, foreign exchange risks, etc., which are outlined separately in Funding Risk, Investments Risk, and Operational and IT Risk Policies. While part of the assessment may be operationally done by the Accredited Entity (“AE”), internal responsibility for the application of these guidelines lies with:
  - (a) Private Sector Facility (“PSF”) – for private proposals;
  - (b) Division of Mitigation and Adaptation (“DMA”) – for public proposals
10. Office of Risk Management and Compliance (“ORMC”) should examine and independently review the PSF and DMA’s assessment.
11. The GCF can seek external independent support in the assessment process. The GCF may especially consider such support in specific scenarios (e.g., a large funding request where GCF has been requested to take a junior position relative to other co-investors).
12. Where material information is lacking against the guidelines and a risk assessment cannot be conclusive, further due diligence and examination may be required.
13. The output of the analysis should be included in the Secretariat Review on the proposal presented to the Board.
14. This document is maintained by the ORMC who should review it once every two years or upon a Board request.
15. “Risk guidelines for funding proposals” are submitted to the Board for approval upon prior review and approval by the RMC.

#### **IV. Guidelines**

16. The guidelines are divided into four types:
  - (a) Guidelines for assessing the risk of a project / programme failing to deliver its target impact: While the GCF is only indirectly involved in project / programme execution, it must consider risk of their failure. Consequences of failed projects / programmes may not be limited to the disbursed funding, but might also mean additional costs to cover the liabilities, or damage to GCF’s reputation.
  - (b) Risk guidelines for setting funding terms and conditions: The GCF may accept a range of deal structures varying in level of complexity, participation of co-investors, blending of funding instruments and modalities, control and ownership structures, and financial terms and conditions. The guidelines in this section seek to establish a comparable standard in understanding and considering risks across diverse funding structures.
  - (c) Guidelines for assessing alignment with GCF’s portfolio level risk limits: The GCF must assess the risk of a proposal in the context of its current portfolio. A new proposal is not a standalone risk, as it also influences GCF’s risks at the portfolio level.

- (d) Guidelines for assessing compliance with GCF's policies and legal requirements<sup>2</sup>: As per the risk appetite (part of the RMF), there is zero risk tolerance for illegal practices and policy / integrity breaches.
17. All the above four types of guidelines should be applied at the FP stage.
18. At the CN stage, guidelines of the types c) and d) should be applied. Additionally, the Fund should apply guidelines of the types a) and b) at the CN stage to the extent possible.

#### 4.1 Guidelines for assessing the risk of a project / programme failing to deliver its target impact

19. Overall assessment
- (a) The proposal should clearly demonstrate that each funding request is directly connected with the Fund's objectives.
- (b) A broader programme proposal should either provide a clear description of each project to be undertaken, or provide clear parameters for making delegated funding decisions.
- (c) The proposal should have adequate policy and regulatory support from the relevant country. The GCF should assess the actual level of country support beyond the no-objection letter (e.g. stabilization clauses or governmental assurances).
20. AE / EE<sup>3</sup> capability
- (a) The proposal's size, focus, Environmental and Social Safeguards ("ESS") standard, fiduciary standard and gender approach must be within the parameters of the Accreditation Master Agreement ("AMA"). The AE must have a project monitoring process and must deliver updates to the Fund at least as frequently as stated in the AMA. The AE should also monitor and report to the GCF the impact of the project upon successful execution.
- (b) The AEs and EEs should have adequate technical and institutional capabilities to execute the project. They should especially provide adequate assurances about the ability to ramp up the necessary staff and ability to manage third parties involved in the execution (if the AE has specific limitations in the AMA, the proposal must not breach them). They should also provide a clear description of their track record in delivering similar projects. The AE and EEs should present their history of cooperation; the GCF should review the performance of the AE and the EE on previous projects / programmes. The GCF should consider the impact of the proposal on other projects managed by the AE in GCF's portfolio.
- (c) The EEs should have a stable internal management. The proposal should include an assessment of the qualifications of the key management personnel.
- (d) The EEs should provide information about their business and strategic objectives in the proposal. The EEs' objectives should be tied to the successful execution of the project.
- (e) The AE and EEs should allow the GCF to request and audit documents and data related to funded activities execution upon request to the extent as defined in the AMA. Should certain risks related to funded activities arise and the GCF considers it is necessary to do further due diligence, then the GCF should be allowed to verify the details at a later stage.

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<sup>2</sup> This category covers GCF's policies not included under other types of guidelines, i.e. specific to project execution, funding structure or portfolio level risk limits.

<sup>3</sup> Where EE has been finalized at the time of CN / FP preparation.

21. Project specific execution risks
  - (a) The GCF should take execution risks into account. These risks include: staff movement restrictions; construction risk (including permitting and siting); operating risk; and supply risk.
  - (b) The GCF should take country-specific execution risks into account. These risks include: political risks; trade embargoes; stability of legal and regulatory environment; and natural catastrophes.
  - (c) The proposal should include a plan to mitigate risks of environmental and community impact, and demonstrate adequate community engagement. The issues especially covered are: limited awareness, preparation, and/or commitment of affected communities, and tackling lack of motivation by the beneficiaries to adopt new technologies.
22. Financial viability
  - (a) The proposal should be assessed against the Fund's investment policies and guidelines.
  - (b) The proposal should include financial and cash flow analyses, including stress analyses. The specific areas that should be covered include (depending on the characteristics of a particular proposal): market conditions analysis; sensitivity of the asset value and liquidity to economic cycles; debt service financial ratios; repayment schedule; off-take risk; and GCF's control over reflows (including expropriation risk).

## 4.2 Risk guidelines for setting funding terms and conditions

23. Funding terms
  - (a) Any form of funding should be granted only to acceptable and identified EEs<sup>4</sup>. The GCF should assess the EEs' capabilities and intent. The proposal should include a review of:
    - (i) Public reports if the EE is a publicly listed company;
    - (ii) Disclosed relevant documents otherwise.For existing EEs, the previous dealings with the GCF and the AE should be taken into account.
  - (b) Where possible, the GCF should be a co-investor, rather than a sole investor. The participation of co-investors can provide higher confidence in the diligence process, and reveal information about the market's pricing and perception of the risks. Co-investment from the AE is encouraged where possible.
  - (c) The requirements and proposed terms for co-investor participation should be clearly articulated in the terms of the funding agreement.
  - (d) The proposal should include an outline of GCF's rights and responsibilities in case of project failure. The AE should provide clarity around subordination, workout rules and roles of each party, and the GCF should have reasonable assurance that it has the technical and institutional capacity to fulfill its role (or otherwise engage a third party).
  - (e) The execution liabilities should be borne by the AE and the EE (or particular subcontractors) rather than the GCF. While the GCF receives updates about the project progress, it does not actively manage the project operations, and thus shouldn't be responsible for dealing with grievances related to execution; however, the grievances should be monitored by the GCF as well.

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<sup>4</sup> Where EE has been finalized at the time of CN / FP preparation.

24. Additional analysis specific to loan / equity / reimbursable grant investments / guarantees:

- (a) Credit proposals should clearly prescribe the disbursement and repayment schedule, and terms and conditions must comply with GCF's Investment Risk Policy (a component of RMF). The GCF needs to make future cash flow projections for Asset-Liability Management. Credit should not be extended if there is strong doubt about the borrower's willingness or ability to repay from a clear, identifiable set of cash flows. The GCF should also estimate the grant equivalent value of the credit.
- (b) When the structural subordination of a lending arrangement results in the GCF taking a different level of credit risk compared to the level of credit risk taken by all other co-investors, the GCF may consider an external independent risk evaluation, especially for large funding requests.
- (c) When taking on an equity/mezzanine stake on different terms than the terms of all other co-investors (including a situation when the GCF is the only equity / mezzanine investor), the GCF may consider an external independent risk evaluation, especially for large funding requests.
- (d) The GCF should consider reflows Foreign Exchange risk and hedging approach.

### 4.3 Guidelines for assessing alignment with GCF's portfolio level risk limits

- (a) GCF's portfolio concentration should remain within the risk appetite after inclusion of the proposal. The concentration across a number of metrics is defined in the risk appetite statement document (part of the RMF). The GCF should calculate the incremental impact of every proposal on those metrics during the approval process (and a combined calculation for all the proposals discussed in a particular Board meeting). Note: The Board retains the authority to approve FPs which may be exceptions to the risk appetite statement. Hence if collected at the CN stage, breach of concentration limits should not result in automatic rejection of the proposal.
- (b) Committing to the disbursement of funds as per the proposal should not breach GCF's liquidity tolerance. Otherwise, the Fund must take mitigating actions to ensure sufficient liquidity in accordance with the risk appetite statement document (part of the RMF). The timing of the investment must be clearly defined and there should be a prudent gap in timing between disbursement of GCF's investment and encashment of the relevant contributions.
- (c) Equity proposals should provide financial projections, articulate any terms on exit (e.g. lock-in period) and exit strategies (e.g. in illiquid markets), and discuss shareholder roles and rights (e.g. potential future dilution). Similarly to the credit structures, the GCF needs to make future cash flow projections for ALM purposes and estimate the level of concessionality in equity structures. The GCF also requires that the AE update the valuation periodically and deliver it to the GCF.

### 4.4 Guidelines assessing compliance with GCF's policies and legal requirements

- (a) The AE should demonstrate in the context of the particular proposal, that it can enforce provisions agreed to in the AMA among the project participants (especially the Prohibited Practices policy) as GCF's delegate. Specifically, the AE needs to submit its 'Procedures for controlling procurement by third parties or Executing Agencies

undertaking projects financed by the entity'. The AMA and Funded Activity Agreement ("FAA") must be effective before disbursement of the funds.

- (b) The AE should verify the laws/policies in relevant countries and inform the GCF of any discrepancies (especially if they are different than the AMA provisions), and propose a resolution.
- (c) (Guideline applicable to loan funding, guarantees or reimbursable grants) Where there is collateral held in escrow, it must not be invested in assets that go against the GCF's climate change mandate.

## Annex IX: Risk management framework component V – risk rating approach

### I. Introduction

1. The Board, through decision B.13/36, requested the Secretariat, in consultation with the Risk Management Committee (“RMC”), to develop the necessary methodologies to enhance the Secretariat’s risk management capacity.

2. This document is a component of the Risk Management Framework (“RMF”), and it describes the set of ratings recommended for the Green Climate Fund (“GCF”, “the Fund”) to maintain for prudent risk management purposes.

3. There are two risk ratings recommended for the GCF:

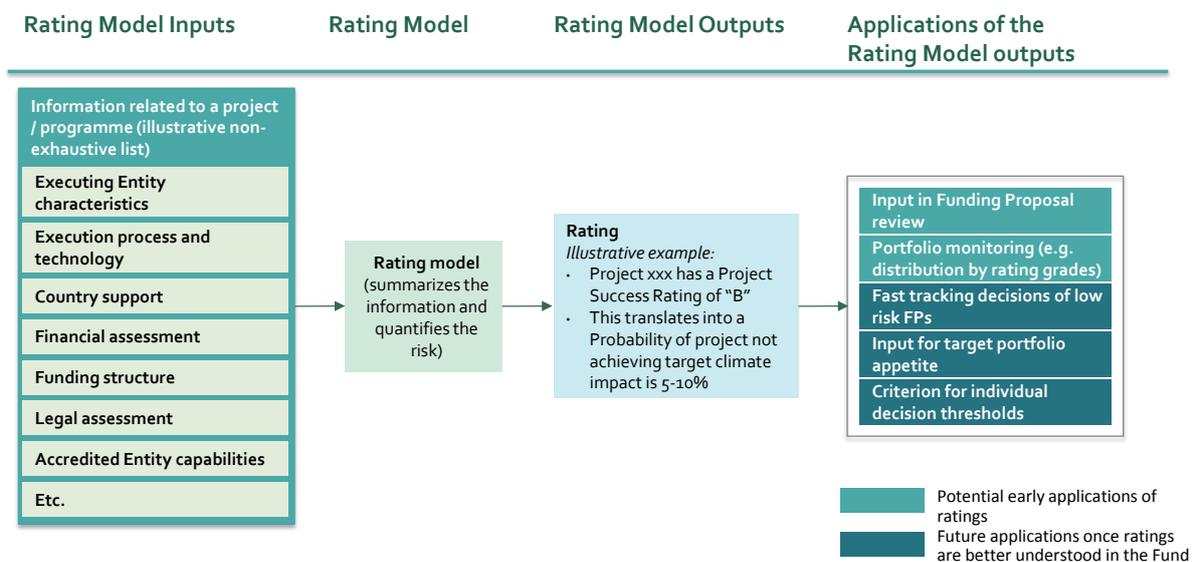
(i) Project / Programme Success Rating (“PSR”): a project / programme level rating that enables quantification of the likelihood of project / programme achieving the target climate impact.

(ii) Credit Risk Rating (“CRR”): a project / programme level rating that enables quantification of the likelihood of project / programme defaulting.

4. Once developed, these ratings can immediately be applied by the GCF in a range of applications including – supporting Funding Proposal (“FP”, “proposal”) decisions and managing GCF’s portfolio mix.

5. Risk ratings form a critical component of the overall RMF proposed for the GCF. Risk ratings are forward looking estimates of the risk associated with a specific entity / funding contract, mapped to a scale for easy and consistent communication across the organization. Underlying a risk rating is usually a rating model, which defines the quantitative relationship between the risk of a specific entity / funding contract and its various risk drivers. Figure 1 below illustrates a rating model aimed at estimating the risk of project’s failure to achieve its target impact, some example inputs to the rating models and some example applications where the output of the rating model can be used.

**FIGURE 1. ILLUSTRATIVE RISK RATINGS (PROJECT SUCCESS RATING EXAMPLE)**



6. Risk Ratings are commonly used by most financial institutions (including most Multilateral Development Banks) in order to quantify risks associated with their clients or

funding contracts. These risk ratings are key inputs to several portfolio and individual client / funding contract level decisions at the institution. However, depending on the institution’s mandate and operating model, there is a variety of practices with regards to the specific risk type the ratings aim to quantify (credit risk vs. equity risk etc.) and the entity for which the risk is being assessed (client vs. affiliate vs. project etc.).

7. This risk rating approach document recommends a set of risk ratings appropriate for the GCF, given its mandate and operating model (including describing which risks should be quantified at the individual entity / project / programme level in the form of ratings, and what should be the target of those ratings).

8. Upon the Board taking note of this document, it is expected that the GCF will develop the set of rating models required to generate the risk ratings described in this document, and commence applying the risk ratings in day-to-day decision making.

## II. Linkages with previous decisions and other documents

9. The risk rating approach is part of the broader Risk Management Framework (“RMF”) (discussed in more detail in Section III). Relevant components of the RMF are submitted to the Board in parallel to this document. Those components and previous decisions, and other documents relevant to this document are listed in Table 1.

**Table 1. Linkages to previous decisions and other documents.**

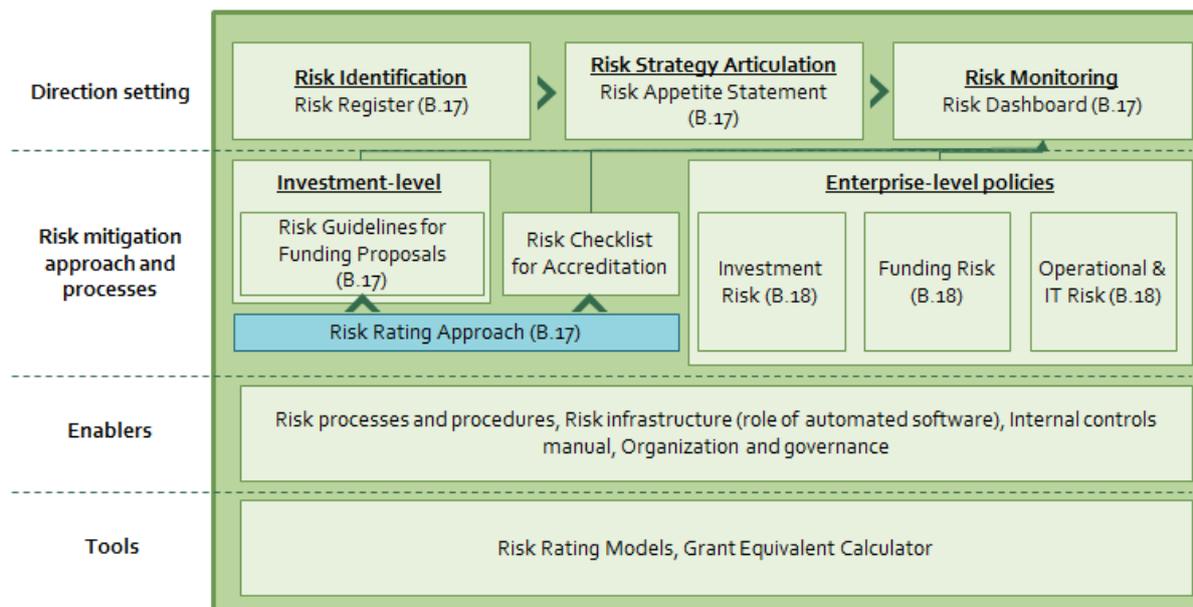
Document	Relevance
Risk Appetite Statement (part of the RMF, to be considered at B.17)	This document provides guidance on: <ul style="list-style-type: none"> <li>• Overall level of risk that GCF is willing to take to achieve its objectives.</li> <li>• Types of risks to be monitored.</li> <li>• Qualitative appetite statements and quantitative metrics that can be cascaded to specific business units to guide their day-to-day operations.</li> </ul>
Risk Guidelines for Funding Proposals (part of the RMF, to be considered at B.17)	This document provides guidelines to ensure that the risks relevant to the GCF are appropriately understood and addressed in a standardized manner.
Risk Checklist for Accreditation (part of the RMF, to be considered at B.18)	This document provides guidelines to ensure a consistent assessment of Accredited Entity (“AE”) in the accreditation process.
GCF/B.07/02 “Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund’s Fiduciary Principles and Standards and Environmental and Social Safeguards”	This document provides an initial guiding framework for the Fund’s accreditation process.
GCF/B.12/17 “Initial Risk Management Framework”	Defined the initial Risk Register, Risk Appetite, and Risk Guidelines for Credit and Investment.

Decision B.13/36	The Board’s request to develop the necessary risk management methodologies.
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### III. Objective

10. This document is a part of the comprehensive RMF – the components of the framework are presented below in Figure 2.

**Figure 2. RMF components**



11. The objective of this document is to recommend a set of risk ratings appropriate for the GCF, given its mandate and operating model.

12. This document also provides an overview of how the proposed set of ratings can be incorporated in various applications across the Fund. Finally, the document describes the roles and responsibilities of various parties in the Fund in developing the underlying rating models, and in the ongoing risk rating process.

### IV. Proposed set of ratings for the GCF

13. The Governing Instrument defines GCF’s mandate as to “promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change (...). The Fund will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two, while promoting environmental, social, economic and development co-benefits and taking a gender-sensitive approach.” Further, the Governing Instrument states that GCF’s strategy is to achieve these goals through investments made in projects / programmes, which are supervised by AEs: “Access to Fund resources will be through national, regional and international implementing entities accredited by the Board.”

14. Given the above mandate and strategy, GCF’s success or failure is most closely linked to the success or failure of its projects, and financial sustainability of the Fund. Thus, an assessment of the likelihood of success of a project / programme and an assessment of the credit risk for credit funded projects / programmes can be extremely useful for the GCF. These

assessments can support various critical decisions at the Fund, including decisions on FPs as well as overall portfolio management.

15. As a result, the following two risk ratings are proposed for the GCF:
  - (a) Project / programme Success Rating (“PSR”): This will be a project / programme level rating, quantifying the likelihood of project / programme achieving success defined as the target climate change impact<sup>5</sup>. Example risk drivers expected to be seen in the underlying risk model include – level of local government and community support for the project, construction risk, financial viability (including stress analysis), etc.
  - (b) Credit Risk Rating (“CRR”): This will be a project / programme level rating, quantifying the likelihood of a project / programme entering a Default Event<sup>6</sup>, resulting in reflow delays or losses. Example risk drivers expected to be seen in the underlying risk model include – financial guarantees, reliability of control of the project / programme assets by the GCF in case of a default, probability of project success etc.
16. The lists of risk drivers in the rating models for PSR and CRR are expected to have fair amount of overlap, and some correlation is expected between the PSR and CRR. However, it is recommended that the Fund develops both risk ratings as:
  - (a) The PSR is most directly linked to the Fund’s mandate and is required to assess risk for projects / programmes.
  - (b) The CRR is closely tied to the Fund’s financial viability and because funding via credit instruments is expected to grow significantly at the Fund, especially within Private Sector Facility (“PSF”).
17. Upon the Board taking note of this document, it is expected that the GCF will develop the set of rating models required to generate the risk ratings described above. Rating model development would require analysis of a much longer list of potential risk drivers, of which a few examples have been cited above.
18. Additionally, an AE Capabilities Rating was considered for the GCF. An AE Capabilities Rating is an AE level rating, reflecting its capability in ensuring success of the projects / programmes executed through it. The current recommendation for the GCF is to deprioritize the AE Capabilities Rating as:
  - (a) There is already an implicit categorization of the AEs as a result of the accreditation process.
  - (b) This rating can be developed in the future once the recommended two risk ratings are well understood and embedded.
19. The proposed set of ratings is expected to bring the following benefits to the GCF:
  - (a) The ratings will bring a common language within the Fund to communicate about and to compare the risk of various projects / programmes. The ratings will bring further structure and consistency to the evaluation process for FPs.
  - (b) The ratings will enable gradation of risk and improved financial analysis.
  - (c) The ratings will support improving several decisions taken by the Fund (See further elaboration in Section V).

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<sup>5</sup> Covering both mitigation and adaptation targets.

<sup>6</sup> Precise definition of a Default Event is set for each Funding Proposal individually in its FAA.

## V. Application of the ratings

20. Once developed, the ratings can immediately be used by the GCF in the following applications:
- (a) Supporting FP Review: The risk rating of a project / programme can be one of the key inputs that the Board can consider while taking a decision on an FP. It should be noted that based on the Risk Appetite Statement (part of the RMF), the Fund is willing to accept considerable uncertainties around investment risks in return for impact potential, to be evaluated on a case-by-case basis recognizing specifics of each FP. The risk ratings are one of several factors that can influence this evaluation.
  - (b) Portfolio monitoring: The distribution of GCF's portfolio by PSR and CRR can be monitored over time, to assess the Fund level risk profile.
21. As the Fund's understanding of the ratings and their implications deepens with time, their application can be expanded into other areas including – fast tracking decisions on low risk proposals; setting target portfolio appetite level based on the ratings; setting individual decision thresholds linked to the ratings; project reflows classification by ratings.

## VI. Roles and responsibilities

22. Office of Risk Management and Compliance (“ORMC”) will be responsible for developing and maintaining the rating models. The Secretariat may seek the help of external expertise to develop these models, or to customize off-the-shelf models available in the market.
23. The Secretariat will be responsible for generating the PSR and CRR for each proposal, with strong support from the AEs in gathering the relevant data. Both Ratings will be generated at first during the proposal review process, and then refreshed at least annually, usually together with the project / programme review process.
24. In order to optimize the use of resources engaged in the rating process, rating refresh is expected to follow a simpler process, focusing on updating key rating model inputs.

## **Annex X: Performance criteria and measurement procedures of the Executive Director of the Green Climate Fund Secretariat**

### **I. Guiding principles**

1. The Executive Director's performance criteria and measurement procedures (Performance Framework) is based on, but not limited to, the following principles:
  - the accountability of the Executive Director to the Board of the Green Climate Fund;
  - the compliance with Board decisions and the guidance provided by the Co-Chairs of the Board.
  - the application of the Policy on Ethics and Conflicts of Interest for the Executive Director of the Green Climate Fund Secretariat pursuant to decision B.10/13;
  - the functions of the Secretariat as provided in the Governing Instrument, and the Executive Director's primary roles and responsibilities, as provided in decision B.12/22; and
  - work accomplishments, competencies and behavioral standards against the roles and responsibilities outlined below and in the relevant articles of his/her contract with the GCF.
2. The Performance Framework should be consistent with the Work Programme of the Secretariat .

### **II. Roles and responsibilities of the Executive Director<sup>1</sup>**

#### **1. Strategic leadership and delivery**

3. The Executive Director will lead the Secretariat's team of professionals, responsible to execute the day-to-day operations of the Fund to, inter alia:
  - Develop a Secretariat that will service and be accountable to the Board
  - Cultivate a work programme and annual administrative budget of the Secretariat and Trustee for approval by the Board;
  - Operationalize the project and programme cycle processes;
  - Prepare performance reports on the implementation of activities under the Fund;
  - Implement the Strategic Plan of the GCF;
  - Establish and run effective knowledge management and learning practices; and
  - Build productive relationships with members, accredited entities, and cooperating bilateral and multilateral institutions and agencies.

#### **2. Building organisational capacity and capability**

4. The Executive Director, being accountable to the Board, will inter alia:
  - Clearly articulate to the Board the Secretariat's needs and challenges in terms of staffing numbers, skills and capability;
  - Maintain the recruitment and retention of a cadre of international and local professional staff for the Secretariat, ensuring that selection is open, transparent and based on merit, taking into account geographic and gender balance, in accordance with the organizational structure and administrative budget approved by the Board;

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<sup>1</sup> Decision B.12/22

- Effectively manage staff, and develop staff's capabilities, in order to maximize their performance and promote an inclusive and healthy working environment;
- Provide regular and structured performance feedback to Secretariat staff, including direct reports; and
- Ensure opportunities for personal learning and development for all Secretariat staff are a priority.

### **3. Managing GCF finance and systems**

#### Operational management

5. The Executive Director will lead the Secretariat's efforts in supporting the Board with the continued development and implementation of:
- The Fund's operational modalities, access modalities and funding structures;
  - Specific operational policies and guidelines, including for programming, project cycle, administration and financial management, as necessary;
  - Funding criteria, modalities, policies and programmes;
  - Environmental and social safeguards and fiduciary principles and standards that are internationally accepted as best practice;
  - Monitoring and evaluation functions;
  - The Fund's Information Disclosure policy to maximize transparency, awareness of the GCF and learning;
  - Portfolio management and oversight including the timely conclusion of administrative arrangements necessary to facilitate disbursements; and
  - Criteria and application processes for the accreditation of implementing entities of the Fund.

#### Financial management

6. The Executive Director will lead the Secretariat's efforts in supporting the Board with the continued development and implementation of:
- A framework for the monitoring and evaluation of performance and the financial accountability of activities supported by the Fund and any necessary external audits;
  - Support the Board in arranging and concluding successful replenishment processes;
  - Prepare financial agreements related to the specific financing instrument to be concluded with an implementing entity;
  - Monitor financial risks of the portfolio; and
  - Manage the relationship with the interim Trustee including to conclude all contribution agreements.

### **4. Provide effective and timely support to the Board**

7. The Executive Director will lead the Secretariat's team of professionals in, inter alia:
- Organizing and executing all administrative duties, including the preparation for meetings of the Board and its subsidiary bodies;
  - Reporting information on the Fund's activities and implement the Fund's communication strategy; and
  - Implementing Board decisions and guidance.

### **5. Establish and nurture effective relationships**

8. The Executive Director will:

- Work to achieve the objective of the Fund, by establishing and maintaining effective relationships with the Fund's stakeholders, including partner Governments, the Board and its Members, and other components of the Fund including the Independent Accountability Units, as well as the Trustee, the Conference of the Parties (COP), relevant bodies under the United Nations Framework Convention on Climate Change, GCF Accredited Entities, observer organizations, multilateral, bilateral and development agencies and other stakeholders; and
- Establish and maintain effective relationships with the Government of the Republic of Korea pursuant to the Host Country Agreement; in maintaining the support provided to the offices in Songdo and ensuring that the officials of the Fund continue to enjoy the privileges and immunities associated with their official functions and status in the Republic of Korea and that Members, alternate Members, advisors and other participants of GCF Board meetings and activities are provided the essential facilities to participate in official GCF Board meetings and other events.

	Competency area	Objective/criterion	Expected output
1	<b>Strategic leadership and delivery</b>	To execute effective and efficient programming of resources	Expeditious disbursement of resources, as directed by Board approvals and decisions
		To help develop a strong network of accredited entities	A balance of accredited entities' applications presented for Board's consideration
		To implement the Initial Strategic plan	<p>Successful and timely implementation of the Initial Strategic plan and the work programme of the Secretariat</p> <p>Structured dialogues organized in all regions</p> <p>Expeditious rate of readiness and project preparation support approved</p>
		To implement the operations and the proposal approval processes effectively and efficiently	Programme and project cycles implemented expeditiously, including improved, streamlined and simplified operations, , in line with Board guidance
		To expedite the delivery of the GCF's resources	Disbursements for approved projects have started and the rate is steadily increased



2	<b>Organizational capacity</b>	To continue to develop the workforce according to need, and recruit qualified and motivated professional staff, enabling gender and geographical balance	The workforce grows in line with Board decisions and represents balance in terms of gender and geography  Staff satisfaction surveys are carried out and, where necessary, responsive actions are identified and implemented
		To ensure effective and efficient Secretariat structure	The structure is reviewed so that it responds directly, efficiently and effectively, to the needs the Fund
3	<b>Administrative matters</b>	To ensure a well-functioning financial management system	Established internal processes and procedures ensure high quality management of financial resources  Effective and efficient application of risk register and risk and investment policies
		To prepare and present policy and procedural options for Board's consideration, as appropriate	Quality documents are drafted in a timely manner for the Board's consideration and implemented when agreed by the Board, with further guidance provided by Co-Chairs, when requested
		To execute contribution agreements and arrangements	All signed contribution agreements and arrangements are executed in a timely and efficient way
		To ensure the start and completion of the replenishment process	Replenishment procedures agreed by the Board are executed in a timely and efficient manner



4	<b>Support to the Board</b>	To present quality documents for Board's consideration	Timely submission of quality draft documents Board proceedings recorded (through live streaming, accurate decisions and reports of the meetings)
		To strive for open and regular communication with the Board and the Co-Chairs	Regular calls on issues pertinent to the operations, priorities and reputation of the GCF ensuring that the Co-Chairs are notified in a timely manner
		Take appropriate actions necessary to respond to COP guidance	Report to the COP submitted with actions and measures taken to address COP guidance
5	<b>Relationships with stakeholders</b>	Targeted communications and outreach	Factual, timely and constructive information on the GCF operations  Targeted annual communication and outreach events
		To strengthen relationship with National Designated Authorities (NDAs), accredited entities and observer organizations	Targeted outreach activities and active participation in events with the NDAs, accredited entities and observer organizations
		To continue to ensure a positive relationship with Host country	Regular communication with the Host country through progress in handling of GCF related matters as per the Headquarters Agreement



		To facilitate a wide coverage of privileges and immunities for the GCF	Increased number of Agreements on Privileges and Immunities signed with countries
		To engage in relevant global fora and international events	Attendance at relevant UNFCCC events Participation in other climate related events targeting GCF stakeholders

## Methodology

9. The Executive Director's performance review should consider qualitative and quantitative feedback, using multiple methods, which may include self-assessment, yearly 360-degree feedback, mid-year and end of year performance discussions with the Co-Chairs of the Board of the Green Climate Fund, as well as an overall performance evaluation as may be decided by the Board in accordance with the Guidelines Principles and the Roles and Responsibilities detailed above.
  - (a) At the end of year performance discussion, the Co-Chairs, in consultation with the Board, will recommend one of the four performance ratings, pursuant to the Performance Management and Development System (Superior, Fully Competent, Competent and Unsatisfactory) for Board approval.
10. Annual performance reviews will be shared with the Board on a confidential basis.
11. The means of verification of the performance results shall be presented to the Board through multiple reports submitted for Board's consideration, including the Work Programme of the Secretariat, report on the status of Fund's pipeline, report on the activities of the Secretariat, report of the Readiness and Preparatory Support Programme, status of the Staffing of the Secretariat and other relevant updates.
12. The Executive Director is also instructed to develop an annual personal work plan, based on this Performance Framework and the Work Programme of the Secretariat, which will be agreed with the Co-Chairs.
13. The personal work plan should outline individual-level core and general objectives, including metrics and weightings, which will assist the Co-Chairs in rating the performance of the Executive Director.
14. The personal work plan could also include developmental goals and opportunities and will form the basis of the annual performance assessment of the Executive Director, in addition to other sources mentioned in paragraph 11 above.
15. The Performance Framework will stand as policy document for all Executive Directors of the Secretariat and shall be updated periodically.
16. The Performance Framework will also serve as an input for an independent evaluation of the performance of the Executive Director, which could commence one year before the conclusion of the term of the Executive Director.

## Annex XI: Accreditation assessment of Applicant 050 (APL050)

### I. Introduction

1. Applicant 050 (APL050), the CDG Capital S.A. (CDG Capital), is a national entity based in Morocco, with a project portfolio that is composed of a variety of sectors and financial instruments. The applicant has provided financing through equity, loans and guarantees for both public and private sector projects in sectors such as power generation and distribution, port infrastructure, water supply infrastructure, real estate, rail, highways, telecommunications, services and industry.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 19 March 2016. The Stage I institutional assessment and completeness check was completed on 20 April 2017 and was progressed to the Stage II (Step 1) accreditation review, which has been concluded with the publication of this assessment. The applicant has applied to be accredited for the following parameters under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** direct access, national, private sector. The applicant received a national designated authority nomination for its accreditation application from Morocco;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** large;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - (i) Basic fiduciary standards; and
  - (ii) Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
- (e) **Maximum environmental and social risk category:** medium risk (Intermediation 2 (I-2)).<sup>3</sup>

### II. Stage I institutional assessment and completeness check

3. The applicant applied under the normal track accreditation process, and was assessed by the Secretariat during Stage I.

#### 2.1 Legal status, registration, permits and licences

4. The applicant provided documents on its establishment and licences to operate, where relevant, as a part of the application. The Caisse de Dépôt et de Gestion was authorized to create CDG Capital S.A. as a subsidiary by decree no. 2-06-178 issued on 4 April 2006 by the Moroccan authorities.

<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), “large” is defined as “total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 250 million for an individual project or an activity within a programme”.

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), Category A is defined as “Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented” and Intermediation 1 is defined as “When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented”.

## 2.2 Institutional presence and relevant networks

5. CDG Group, including the applicant, has a track record of blending its own funds with international partners such as the European Investment Bank, Kreditanstalt für Wiederaufbau and Caisse de Dépôt et de Gestion. CDG Group is also a member of the International Development Finance Club supporting climate finance initiatives. It has recently voiced its support for the “common principles for climate mitigation finance tracking” aiming at further increasing transparency and credibility of mitigation finance reporting.

6. The applicant is the fully owned asset management, financing and investment banking arm of CDG Group, serving both private and public clients. The applicant, along with the larger CDG Group, intends to continue supporting the implementation of the national climate strategy in Morocco and to develop adaptation projects to adjust to the consequences of climate change in the following sectors: energy, landfill gas management, water management, agriculture and forestry, transport, and housing and urbanization (including new cities).

7. CDG Capital seeks accreditation to the GCF in order to:

- (a) Support efforts to promote the paradigm shift towards low-emission and climate-resilient development pathways in Morocco;
- (b) Make available relevant financial instruments and resources for economic operators to achieve scalable energy efficiency and renewable energy projects;
- (c) Protect vulnerable communities by investing in water security projects; and
- (d) Share knowledge on climate change mitigation and adaptation topics with partners in Morocco and other African countries who need technical and financial assistance to fight climate change.

## 2.3 Track record

8. The applicant has placed socially responsible investment and climate change as one of its main objectives. The applicant indicated that it has previously partnered with government, the national utility supplier, the private sector, civil society organizations and local communities in Morocco to achieve climate change mitigation and adaptation projects.

9. The applicant’s track record in financing climate change-related projects includes the following:

- (a) USD 3.5 million of USD 21 million (Emission Reduction Purchase Agreement through the clean development mechanism) for a wind farm project in Morocco;
- (b) USD 10.2 million of USD 818 million (loans, investment credit line) for the Moroccan public utility supplier (financing the electricity distribution network) in Morocco;
- (c) USD 15.3 million of USD 90 million (equity) for the Agadir Desalination project in Morocco;
- (d) USD 4.1 million of USD 816 million (loans) for the Moroccan public utility supplier (overdraft credit line in the energy sector) in Morocco; and
- (e) USD 6.2 million of USD 81.6 million (guarantees) for the Casablanca bus transport concessionaire, financing the purchase of new equipment in Morocco.

## III. Stage II accreditation review assessment

10. The applicant applied under the normal track accreditation process, and was assessed against the standards of the GCF by the Accreditation Panel (AP) during Stage II (Step 1).

11. As part of this assessment, the AP consulted the applicant's website and third-party websites to complement the information provided in the application.

### 3.1 Fiduciary standards

#### 3.1.1 Section 4.1: Basic fiduciary standards: key administrative and financial capacities

12. The applicant has an organizational and corporate governance structure that is appropriate for the size and scope of its activities. The applicant's board of directors has two oversight committees: audit and risk management. In addition, the applicant has six internal committees: credit, conduct and ethics, steering committee of internal control, recovery and litigation, and provisions. The corresponding terms of reference, and descriptions of the roles and composition for each committee were provided by the applicant. The applicant has a process for setting long- and short-term objectives aligned with its overall mission; a process for preparing annual budgets and monitoring of these budgets; and a process for monitoring and assessing the performance of the entity against the set objectives.

13. The applicant's consolidated annual financial statements for the years 2012, 2013 and 2014 were prepared in accordance with the requirements of the International Accounting Standards Board, which include the International Financial Reporting Standards and the International Accounting Standards. The financial statements present comprehensive corporate financial information, including information on the evaluated assets and liabilities, cash flows, taxes, costs, interest expenditure and value, other business revenues, cost of risk, shareholders' equity, earnings per share, investments in associates and joint ventures, subsidiaries, and consolidation principles.

14. The applicant has a well-developed financial information system in place that reflects the cash flow reports on the entities' operations, including private equity funds. The applicant has transparent and consistent payment and disbursement systems in place with documented procedures and clear allocation of responsibilities.

15. The applicant has an established internal audit process under which activities are directly and regularly monitored by the applicant's audit and investigation department, which reports to the audit committee. The operation of the internal audit in accordance with its audit charter is evidenced by appropriate evidence such as minutes of meetings, audit plans, sample audit reports and reports on the status of actions taken with regard to the recommendation of the internal auditors, which were provided by the applicant. The applicant complies with international standards and the code of ethics of the Institute of Internal Auditors and also undertakes the periodic assessment of the overall effectiveness of the internal audit function.

16. The applicant has appointed an external auditor to independently review financial statements at an overall organizational level. The external audit controls were carried out in accordance with professional standards applicable in Morocco and in accordance with Moroccan accounting standards. In the opinion of the external auditor the consolidated financial statements, in all significant aspects are true and fair, and correctly reflect the financial performance and cash flows for the corresponding financial years. The recommendations of the external auditor were shared with the applicant's board of directors and management of the entity, and all the actions taken in response to the recommendations were further recorded.

17. The applicant has a well-developed internal control framework, which is outlined in the internal control charter document. The internal control function covers supervision of the measures for strengthening and improving the ongoing monitoring system for the applicant's performance and its subsidiaries. The details of the control records are contained in the summary of the internal monitoring and audit committee reports, and in documentation with regard to the control consolidation meetings with the business lines and the meetings of the

steering committee for internal monitoring, as well as records of audit and risk committee meetings.

18. The applicant has procurement policies and procedures that are found to be comprehensive and adequate for its procurement activities. The applicant's procurement is based on the following principles: the promotion of fairness and transparency, sustainable development and responsible purchasing; development of e-commerce; continuous improvement of service quality; the promotion of innovation; economic performance; optimization of expenditures; and asset protection. The applicant's procurement policy rules, regulations and guidelines ensure free access to the ordering and purchasing process, competitive bidding principles, equal treatment of competitors and transparency in the choice of service providers.

### 3.1.2 **Section 4.2: Basic fiduciary standards: transparency and accountability**

19. The applicant has in place the appropriate processes, authorities and key documents for supporting ethical behaviour of the employees and other parties associated with the applicant's operations, such as an ethics and professional conduct committee, a code of professional conduct and relevant guidelines. The code of professional conduct, as well as supporting policies, also addresses the issues related to the conflict of interest and management of confidentiality.

20. Prevention of financial mismanagement is regulated by a specific set of internal financial policies with regard to fraud prevention. The applicant's management team have committed to a zero-tolerance policy in relation to fraud, and have adopted the general principles of prohibited practices that are in compliance with the GCF interim policy on prohibited practices.

21. The applicant has provided the evidence that the investigative function is carried out by its audit and investigation department. The investigation process, as well as the process of handling complaints, is described in the new internal investigation procedure. The procedure covers occurrence of fraud, incident, actual or potential significant loss and other serious issues. In response to the occurrence of serious issues, which can considerably affect the interests of the bank, its customers, shareholders and partners, the audit and investigation department undertakes special missions of investigation and reports on the outcomes to the board of directors. The web link to receive complaints on suspected fraud cases from the general public is posted on the applicants' website. However, the link does not provide the information on the process of handling complaints received from the general public.

22. The applicant has provided a statement that there have been no cases of violation of the code of ethics in the past three years.

23. The applicant provided its policy on anti-money laundering and countering the financing of terrorism, which has been approved by its board of directors. The policy establishes the rules for the examination of the customer and its risk profile, and the methods for the identification of suspicious activities. The policy also contains the general principles and types of prohibited practices to be developed by the applicant, which are found to be in a full compliance with the list of the prohibited practices contained in the GCF interim policy on prohibited practices.

24. The applicant's due diligence process of its customers and counterparts with regard to combating money laundering and the prevention of financing terrorism is established and operating in accordance with the corresponding policies and manuals, and is found to be transparent, efficient and mature. The applicant requires all the customers, including independent persons and legal entities to provide the complete information on their business following the 'know-your-customer' (KYC) due diligence manual. The system is supported by the well-established procedure and in-house electronic control system for undertaking KYC due diligence, as well as for close monitoring of the electronic fund transfers. The corresponding

sample KYC due diligence reports, as well as sample reports on the electronic transfers were provided.

3.1.3 **Section 5.1: Specialized fiduciary standard for project management**

25. The applicant did not apply for assessment against this standard at this time.

3.1.4 **Section 5.2: Specialized fiduciary standard for grant award and/or funding allocation mechanisms**

26. The applicant did not apply for assessment against this standard at this time.

3.1.5 **Section 5.3: Specialized fiduciary standard for on-lending and/or blending**

27. The applicant is the fully owned asset management, financing and investment banking arm of the larger financial group and, as such, has profound experience in undertaking strategic investments and financing sustainable development projects, while also providing various financial services for both private and public group clients, such as asset management services, providing financial guarantees, debt and equity financial structuring and bonds issuance, and the management of private equity funds and of one-off infrastructure funds. The financial group to which the applicant belongs is the 100 per cent government-owned manager of public pension funds and regulated deposits of Morocco, with over USD 20 billion assets under management.

28. The applicant has a mature set of procedures on the determination of the equity and debt investments in the projects, as well guidelines on providing financial guarantees. The funding mix of the project is determined considering the project's risk allocation principles, risk diversification strategy and market standards for the relevant type of project.

29. The applicant has also demonstrated sound investment policies for asset management, private equity and infrastructure funds investment policies, investment financial risk and management policies, supported by the regular corporate risk diversification reports. The applicant also has in place procedures and organizational structures that ensure appropriate segregation of the duties of the treasury function and operations.

30. The applicant has a documented framework for undertaking due diligence of the financial opportunities, with clearly defined roles and responsibilities and applicable guidelines and procedures for assessing the capabilities of the organizations seeking financing or a guarantee from the applicant. Sample due diligence reports in respect of its equity financing and on-lending and blending operations, as well as samples of the guarantee agreements, show effective use of and compliance with the existing policies and procedures.

31. Until recently, the applicant did not have in place a policy on the disclosure of information to the public on its on-lending and blending operations, project beneficiaries, project results achieved and lessons learned, which is required by the GCF fiduciary standards. In order to address these gaps, the applicant has developed the required procedures, which were recently approved by the applicant's board. However, in order to fully meet the requirements of the GCF, the applicant would need to provide evidence of the effective implementation of its new information disclosure policy.

32. The applicant stated that currently it does not lend to financial institutions, therefore it does not have any assessment reports on the lending portfolio of such intermediaries. However, it also stated that it might use the services of a financial institution in the future, for example as a managing company to run an equity fund where the applicant has an equity stake. In this case it would need to provide the corresponding assessment report of the intermediary contracted for the management of the project(s) approved by the Board.

## 3.2 Environmental and social safeguards

### 3.2.1 Section 6.1: Policy

33. The applicant provided its environmental and social safeguard (ESS) policy, which came into effect in July 2016. The applicant's ESS policy is endorsed by its management, as indicated in the introductory letter signed by the general management in the original version in French. The ESS policy was communicated by the applicant's management to all of its staff by email on 21 September 2016. The policy covers the scope, purpose, objectives and principles which guide the applicant in its decision-making processes and includes the roles and responsibilities of various units. Furthermore, the policy refers to the performance standards 1 to 8 of the GCF interim ESS, including adherence to the country's obligations under international law. The applicant has expressed its commitment to comply with the GCF interim ESS for both Intermediation 2 and 3. The ESS policy includes the requirement that its executing entities, when they execute projects financed by the applicant, address cumulative impacts, analysis of alternatives, baseline data standards and mitigation hierarchy.

34. As evidence of the applicant's implementation of the performance standards, the applicant provided guidelines and checklists that will be used in screening projects against performance standards 1 to 8 of the GCF interim ESS.

### 3.2.2 Section 6.2: Identification of risks and impacts

35. The applicant has provided its procedure for environmental and social (E&S) risk and impacts identification in line with performance standards 1 to 8 of the GCF interim ESS. The procedure also provides an E&S risks and impacts identification form, which systematically addresses performance standards 1 to 8 of the GCF interim ESS. The applicant has provided the terms of reference and job description of the person in charge of implementing the E&S risks and impacts identification procedure, who is the environmental and social specialist. The applicant's ESS team is in charge of performing E&S risk identification and categorization. The applicant has also provided sample projects showing an identification of E&S risk and impacts analysis carried out per the International Finance Corporation's performance standards, indicating the applicant's capability of undertaking this task in line with the GCF interim ESS.

### 3.2.3 Section 6.3: Management programme

36. The applicant has committed to develop and provide the GCF full E&S risk mitigation and management reports for projects that it will finance using GCF resources. Similarly, the applicant has committed to develop and provide the GCF with an audit report to improve the effectiveness of its institutional management related to programmes financed using GCF resources.

37. The applicant provided a sample of a monitoring plan for a wind farm project, and the sample is quite extensive in terms of key technical indicators. However, the key indicators did not cover social issues such as grievances received/resolved. In addition, the full monitoring report was not provided.

### 3.2.4 Section 6.4: Organizational capacity and competency

38. The applicant has provided its overall organization chart, which includes identification of all departments that would be involved with the applicant's ESS team and a detailed chart of the ESS team, which reports to its chief executive officer. The ESS project cycle chart describes the tasks and interactions of the ESS team with other teams in the design and implementation of projects. The ESS team is made up of a manager and two environmental specialists. External consultants are used to support the team in its tasks, as necessary. Job descriptions of the duties of the environmental and social specialist and of the ESS and gender manager, are also provided in line with the GCF interim ESS. This set up of the applicant's organization capacity and competencies is sufficient to undertake I-2 and I-3 projects and programmes.

### 3.2.5 Section 6.5: Monitoring and review

39. The applicant's ESS monitoring procedures provide a detailed description of actions and guidelines to ensure the consistent application of the monitoring programme. It addresses how the projects will be monitored periodically and systematically with a clear monitoring methodology (planning, data collection, analysis, corrective action tracking, issue resolution and reporting); tools/reporting templates; and description of responsibilities. The procedures on internal monitoring describe the annual reporting to the chief executive officer by the ESS team and the annual meeting of the ESS committee to review the effectiveness of the applicant's environmental and social management system. In addition, an external audit will ensure E&S compliance of the financing channelled by the applicant.

40. The applicant has not provided adequate sample monitoring reports except for the monitoring planning phase, because its procedures are new (July 2016). The applicant has made a commitment to develop a track record for further and more robust E&S-related monitoring of its projects, particularly for projects it will finance using the GCF resources, and to share reports of periodic performance reviews with its senior management on the effectiveness of the environmental and social management system.

### 3.2.6 Section 6.6: External communications

41. The applicant's updated external communications procedure provide a detailed description of the ESS-related disclosure and a consultation policy for Intermediation 2 and Intermediation 3, which also addresses the grievance mechanism. The procedure includes the location of the procedure on its website, as well as the description of the assigned responsibilities for those who would manage the communication and disclosure process.

42. The applicant has indicated that it has no register of enquiries or complaints available because its policies are new, and that it has not received any complaints on its past programmes. The applicant is willing to develop and maintain a register for the applicant's projects financed using GCF resources.

## 3.3 Gender

43. The applicant has provided its gender policy which has been endorsed by its management. The applicant has also provided its gender procedures, which describe the action plan to ensure gender mainstreaming in the applicant's operations (both in projects and in-house). The procedure also includes tools for:

- (a) The identification of gender risks;
- (b) The management of gender risks;
- (c) Monitoring; and
- (d) External communications.

44. As the applicant's gender policy and procedures are relatively new, it has no track record with regards to gender and related competencies. However, the applicant has provided a detailed action plan to develop internal capacity and competency in line with the GCF Gender policy.

## IV. Conclusions and recommendation

### 4.1 Conclusions

45. Following its assessment, the AP concludes the following in relation to the application:

- (a) The applicant partially meets the requirements of the GCF basic fiduciary standards and specialized fiduciary standard for on-lending and/or blending for loans, equities and guarantees. In some respects the applicant's policy is new (e.g. information disclosure), and there is no evidence yet of implementation. In the case of complaints in general, information is not disclosed to the public. There is also no track record of working through a financial intermediary and corresponding policy;
- (b) The applicant has applied for GCF large size category. However, the applicant did not demonstrate any track record on providing project financing of an amount higher than USD 55 million. Therefore, the AP can only recommend the accreditation of the applicant for the medium size category;
- (c) The applicant partially meets the requirements of the interim ESS of the GCF in relation to medium E&S risk (I-2). As the applicant's ESS policy and procedures are relatively new, it has not been able to demonstrate its track record in terms of E&S mitigation and management, and E&S monitoring and external audit. The applicant has also committed to enhance its external communications procedure regarding ESS public consultation and disclosure, and for receiving and responding to E&S-related complaints; and
- (d) As the applicant's gender policy and related procedures are relatively new, it has not demonstrated its competencies to implement its gender policy consistent with the GCF Gender policy. The applicant has also not demonstrated that it has experience with gender considerations in the context of climate change. However, the applicant has submitted a work programme to address these shortcomings.

## 4.2 Recommendation on accreditation

46. The AP recommends, for consideration by the Board, applicant APL050 for accreditation as follows:

- (a) **Accreditation type:**
  - (i) **Maximum size of an individual project or activity within a programme:** medium<sup>4</sup> (including micro<sup>5</sup> and small<sup>6</sup>);
  - (ii) **Fiduciary functions:**
    1. Basic fiduciary standards;
    2. Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
  - (iii) **Maximum environmental and social risk category:** medium risk (I-2) (including lower risk (I-3<sup>7</sup>)); and
- (b) **Conditions:** the applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition(s). The AP will thereafter assess

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<sup>4</sup> As per annex I to decision B.08/02, "medium" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 50 million and up to and including USD 250 million for an individual project or an activity within a programme".

<sup>5</sup> As per annex I to decision B.08/02, "micro" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of up to and including USD 10 million for an individual project or an activity within a programme".

<sup>6</sup> As per annex I to decision B.08/02, "small" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 10 million and up to and including USD 50 million for an individual project or an activity within a programme".

<sup>7</sup> As per annex I to decision B.07/02, Category C is defined as "Activities with minimal or no adverse environmental and/or social risks and/or impacts" and Intermediation 3 is defined as "When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts".

whether the condition(s) has/have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes;

- (i) Condition to be met by the applicant prior to submitting the first funding proposal to the GCF wherein the applicant would be providing GCF resources through a financial intermediary:
  - 1. Submit a description of the approach the applicant will undertake to assess the financial intermediary as the executing entity;
- (ii) Conditions to be met for each funding proposal:
  - 1. Provide in its funding proposal an E&S management framework that describes the applicant's project-specific approach to E&S risk and impact categorization, mitigation and management, E&S monitoring and reporting; and
  - 2. Provide in its funding proposal a gender action plan that reflects the applicant's adequate competency in terms of human and financial resources and a system for maintaining data that addresses gender aspects in line with the GCF Gender policy;
- (iii) Condition to be met prior to the first disbursement by the GCF for the first approved GCF project/programme to be undertaken by the applicant:
  - 1. Provide, on the applicant's website, a description of the arrangements and procedure for managing complaints before, during and after the investigation process; and
- (iv) Condition to be met on an annual basis for three consecutive years starting with the end of the first year of the implementation of the first GCF-funded project/programme:
  - 1. Provide the evidence that the reports on beneficiaries and results during implementation of all GCF-funded activities were prepared and published in accordance with the applicant's procedures for public access to information.

47. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 46 above, and agrees to the recommendation.

## Annex XII: Accreditation assessment of Applicant 051 (APL051)

### I. Introduction

1. Applicant 051 (APL051), the Infrastructure Development Company Limited (IDCOL), is a national entity in Bangladesh with a vision to help to ensure the economic development of the country and to improve the standard of living of the people of Bangladesh through sustainable and environmentally-friendly investments. The applicant has been promoting and financing in the private sector since its inception in 1997, focusing on infrastructure, renewable energy and energy efficiency projects. The applicant seeks accreditation to the GCF in order to scale up its renewable energy projects with innovative technologies and new sustainable business models in order to generate a greater impact countrywide.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 10 September 2015. The Stage I institutional assessment and completeness check was completed on 3 November 2016 and was progressed to the Stage II (Step 1) accreditation review, which has been concluded with the publication of this assessment. The applicant has applied to be accredited for the following parameters under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** direct access, national. The applicant received a national designated authority nomination for its accreditation application from Bangladesh;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** medium;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - (i) Basic fiduciary standards;
  - (ii) Specialized fiduciary standard for project management; and
  - (iii) Specialized fiduciary standard for on-lending and/or blending (for loans); and
- (e) **Maximum environmental and social risk category:** medium risk (Category B/Intermediation 2 (I-2)).<sup>3, 4</sup>

### II. Stage I institutional assessment and completeness check

3. The applicant applied under the normal track accreditation process, and was assessed by the Secretariat during Stage I.

<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), “medium” is defined as “maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 50 million and up to and including USD 250 million for an individual project or an activity within a programme”.

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), Category B is defined as “Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures” and Intermediation 2 is defined as “When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented”.

<sup>4</sup> The applicant initially applied for environmental and social (E&S) Category A/Intermediation 1, however, it had not provided an adequate track record for this category and subsequently indicated that it wished to apply for Category B/I-2 instead.

## 2.1 Legal status, registration, permits and licences

4. The applicant provided documents on its establishment and licences to operate, where relevant, as a part of the application. The applicant was incorporated by the Government of Bangladesh under the Companies Act (XVIII) of 1994.

## 2.2 Institutional presence and relevant networks

5. The applicant has 12 regional offices in Bangladesh from which the applicant manages the projects and programmes that it implements. It has well-established partnerships with government institutions; the private sector, which includes but is not limited to micro-finance institutions, non-governmental organizations; as well as bilateral and multilateral development agencies. Together with its partners, the applicant has acquired a track record mainly in investing in sustainable infrastructure, renewable energy and energy efficiency that is assisting Bangladesh to migrate towards climate-resilient development pathways.

6. The applicant seeks to contribute towards furthering the climate mitigation and adaptation objectives of the GCF by using its experience in managing projects and programmes in the areas of renewable energy, energy efficiency, infrastructure, agriculture and environmental services. Through piloting new renewable energy technologies in collaboration with the private sector, the applicant has been able to design a sustainable business model that ensures the delivery of clean, affordable and reliable energy services to the end users living mostly in remote areas. With the support of GCF resources, the applicant can scale-up these intervention schemes countrywide, which in turn could reduce the overall carbon emissions of the country.

7. Furthermore, the applicant seeks to strengthen country ownership by providing technical assistance in the form of training and capacity-building services to its local partners.

## 2.3 Track record

8. The applicant leverages its partnerships to mobilize financial resources from the Government of Bangladesh through national institutions, and by engaging with bilateral and international organizations. The applicant intends to continue cooperating with its partners in order to assist Bangladesh to achieve sustainable development that mainstreams climate change by implementing infrastructure projects in that country.

9. The applicant undertakes climate-resilient sustainable development by mainstreaming climate mitigation and adaptation in all the sectors that it operates in. The applicant has a track record in financing infrastructure, renewable energy, agriculture and energy efficiency projects in Bangladesh. Its track record in financing sustainable development and climate change projects in these sectors to date includes the following:

- (a) USD 997 million (loans, grants and equity) for the Solar Home System Programme;
- (b) USD 380 million (loans, grants and equity) for the 450MW Meghnaghat-1 Power Plant;
- (c) USD 14.69 million (loans, grants and equity) for the Domestic Biogas and Biogas-fertilizer Programme; and
- (d) USD 10.2 million (loans, grants and equity) for the Solar Mini-grid and Solar Irrigation Programmes; and
- (e) USD 8 million (grants) for the Improved Cook Stove Programme.

## III. Stage II accreditation review assessment

10. The applicant applied under the normal track accreditation process, and was assessed against the standards of the GCF by the Accreditation Panel (AP) during Stage II (Step 1).

11. As part of this assessment, the AP consulted the applicant's website to complement the information provided in the application.

### 3.1 Fiduciary standards

#### 3.1.1 Section 4.1: Basic fiduciary standards: key administrative and financial capacities

12. The applicant's governance structure includes several internal oversight bodies: an audit committee, ethics committee, credit risk management committee and asset liability management committee. The audit committee comprised five members from both the public and private sectors. Profiles of the committee members and sample minutes of committee meetings provided show that the members have the expertise and experience to carry out their responsibilities adequately.

13. The applicant's financial statements are prepared in accordance with the country's financial reporting standards, Companies Act 1994, Financial Institutions Act 1993, and other applicable laws and regulations. The country's financial reporting standards meet the standards required by the International Financial Reporting Standards. Evidence of certification by the International Financial Reporting Standards was provided by the applicant. The applicant uses a customized data management system for the recording of day-to-day financial transactions and year-ending financial reporting.

14. The applicant has its own disbursement policies and procedures which are detailed in its accounting, audit and internal control manual, but also follows the disbursement guidelines of its development partners, where required. Its procedures provide for a clear segregation of approval and disbursement responsibilities and authorities. Audits of the applicant's payment and disbursements system are carried out periodically.

15. The applicant has a well-established and adequately staffed internal audit department. In order to ensure its independence, the department reports directly to the applicant's board. The applicant's annual financial statements are audited by an external audit firm. The sample external audit reports provided show that the financial statements were audited in conformity with the International Financial Reporting Standards as adopted by the Institute of Chartered Accountants of Bangladesh. Complete external audit reports for the past three financial years were provided by the applicant.

16. The applicant has a comprehensive internal control framework which is overseen by an internal control and compliance committee to ensure the efficiency and effectiveness of organizational activities, reliability, completeness and timelines of financial and management information, compliance with applicable laws and regulations, and accountability to the applicant's board.

17. The applicant has a detailed procurement policy that guides the procurement of goods and services. In addition to its own procurement policy, the applicant follows the respective procurement policies of the donor agencies under the project they finance. The sample procurement documents provided show that the applicant's procurement policies are consistent with recognized international practice. The applicant also has uniform procurement guidelines for the executing agencies under the projects its finances. It conducts procurement audits on its partner organizations, which are affiliated with different projects and programmes funded by the applicant. For the resolution of procurement disputes, the applicant generally follows the provisions under country's Public Procurement Rules.

18. While the applicant meets all other GCF requirements relating to administrative and financial capacities, it does not have a process in place to monitor and assess the overall

effectiveness of the internal audit function, and it has not provided evidence to show that checks and audits of its procurement activities are carried out. The applicant is taking the appropriate steps to address these shortfalls in meeting GCF requirements.

**3.1.2 Section 4.2: Basic fiduciary standards: transparency and accountability**

19. The applicant has a draft code of conduct (pending its board's approval) that defines ethical standards to be upheld by employees and all parties functionally related to the organization. Even though it is still in draft form, the code of conduct is communicated to the employees and the other targeted parties through appointment letters and signed contracts, respectively.

20. Oversight of the applicant's ethics is carried out by an integrity committee, the terms of reference of which were provided along with the sample minutes of meetings of the committee.

21. The applicant has a financial mismanagement policy, which is detailed in the accounting, audit and internal control manual. A sample case demonstrating the procedures for handling financial mismanagement was provided. The information provided demonstrates the applicant's experience and track record in accessing financial resources from international sources, including the main multilateral development banks and bilateral aid agencies.

22. The applicant has a "Zero tolerance policy against fraud corruption and other sanctionable practices", which is posted on the applicant's website, including a provision for reporting fraud, corruption and other forms of misconduct. The applicant has put in place a whistle-blower protection policy and conflict of interest review and resolution procedures. The policy on zero tolerance of fraud is complemented by a detailed mechanism for investigating cases of suspected or alleged fraud and other forms of misconduct. In order to ensure objectivity, investigations are carried out by an inquiry commission comprised of senior staff from three different departments rather by a single officer. A copy of the case register that shows details of the cases investigated and their current status or final disposition was provided by the applicant.

23. In order to combat money laundering and to counter the financing of terrorism, the applicant recently put in place:

- (a) An anti-money laundering and countering the financing of terrorism policy which is based on the "Guidance notes on prevention of money laundering and anti-terrorist financing" formulated by the country's Central Bank; and
- (b) A comprehensive 'know-your-customer' due diligence process.

24. The applicant also has a detailed mechanism for monitoring the electronic transfer of funds which is implemented in collaboration with commercial banks and parties with which the applicant has business relationships.

**3.1.3 Section 5.1: Specialized fiduciary standard for project management**

25. The applicant has well-documented operational procedures, including project preparation, appraisal, credit risk management, monitoring and evaluation policies and guidelines. The applicant has also recently prepared a draft project closure policy which is awaiting approval by its board. Their effective use is demonstrated by sample project appraisal reports and other supporting documents provided, which also show that the applicant has the capacity to examine and incorporate the technical, financial, economic and legal, environmental and social aspects of the project at the appraisal stage.

26. The applicant has satisfactory procedures and processes for undertaking project quality reviews through a sequential review process involving several units within the organization, such as the business unit, credit risk management unit, credit risk management committee, credit committee and the board of directors. Sample reports of the quality reviews undertaken during project preparation and appraisal process for two different projects were provided.

27. The applicant has a mature monitoring and evaluation function. The function places emphasis on continuous oversight of the project implementation process and periodic reporting on the project's implementation status to the applicant's operations committee, which comprises the heads of the relevant department of project executing agencies and is chaired by the applicant's chief executive officer. Sample implementation status reports as well as sample minutes of operations committee meetings were provided.

28. The applicant does not have an in-house capability for the independent evaluation of project results at implementation completion. Instead, it relies on external expertise to carry out the independent evaluations normally under the funding of respective donor agencies. The terms of reference for independent evaluation and the sample evaluation reports provided demonstrate that the evaluation function complies with recognized professional standards and methods.

29. As part of its project implementation monitoring process, the applicant has a project-at-risk system to identify and address project problems before they become entrenched and inhibit the attainment of project objectives. The system is primarily managed by project relationship officers who are responsible for the follow-up of project activities at different stages in coordination with the monitoring and technical teams.

30. Although the applicant meets all other requirements related to the specialized fiduciary standard for project management, it has only recently developed some of the required policies and procedures which are yet to be approved by its board. These include policies relating to project closure, the publication of monitoring and evaluation reports on GCF-financed activities, the independent evaluation of results of GCF-funded activities, and the public disclosure of evaluation reports. The applicant is taking appropriate steps to address these shortfalls in meeting GCF requirements, including securing the approval of the draft policies and procedures by the applicant's board.

3.1.4 **Section 5.2: Specialized fiduciary standard for grant award and/or funding allocation mechanisms**

31. The applicant did not apply for assessment against this standard at this time.

3.1.5 **Section 5.3: Specialized fiduciary standard for on-lending and/or blending**

32. The applicant's on-lending and blending operations are supported by a set of policies, procedures and guidelines, including a project appraisal manual, lending policy and credit risk management guidelines. The applicant has been involved in on-lending and/or blending activities since its inception in 1997. It has a proven track record in receiving and on-lending and/or blending resources from major funding agencies such as the World Bank, the Asian Development Bank, the Japan International Cooperation Agency, the United Kingdom Department for International Development, Kreditanstalt für Wiederaufbau and the United States Agency for International Development. Examples of on-lending, including information on the intermediaries and sources of funding, were provided by the applicant. The sample project appraisal reports provided are comprehensive and contain all the pertinent areas that are normally contained in a completed due diligence report.

33. The applicant has appropriate operating guidelines which ensure that the funds it provides are channelled transparently and used effectively. The applicant's disbursement process and the utilization of funds by its partner organizations are audited by external auditors to ensure that the funds are used for the intended purposes. Copies of sample disbursement audit reports were provided. The applicant also provided information on two projects, which shows that advantages to the final beneficiaries of projects funded by the applicant are regularly monitored and evaluated.

34. In order to comply with the guidelines of the country's financial sector regulatory authority on "Managing core risks of financial institutions and asset liability management", the

applicant has put in place robust financial risk management guidelines which bolster its capability to assess, identify and address key financial risks in its on-lending and blending activities. The attention paid to financial risk management is evident from the sample minutes of recent meetings of the applicant's asset and liability committee.

35. The applicant partially meets the GCF requirements relating to the specialized fiduciary standard for on-lending and/or blending (for loans), as it has only recently developed the required policy on the disclosure of information to the public regarding the applicant's decisions on on-lending and/or blending operations, and a policy on publication of monitoring and evaluation reports on projects that would be funded by the GCF. The applicant is taking the appropriate steps to address these shortfalls in meeting GCF requirements, including securing approval from its board of the draft policies and procedures.

## 3.2 Environmental and social safeguards

### 3.2.1 Section 6.1: Policy

36. The applicant's environmental and social management system (ESMS) includes its E&S policy, environmental and social management framework (ESMF) and environmental and social safeguard framework (ESSF). The applicant's renewable energy financing portfolio, including its solar home system programme, solar irrigation, solar mini-grid, biogas programme, biogas-based electricity, and improved cook stove programme, is guided by its ESMF, which was accepted by all development partners and adopted by the applicant in 2014. On the other hand, the applicant's infrastructure financing is guided by its ESSF, which was adopted in 2011 and applies to solar roof-top and solar grid-tied projects the applicant finances.

37. The applicant is now updating its ESMS to be compatible with operational policy 4.03 of the World Bank,<sup>5</sup> which is to be followed by the applicant for solar roof-top and solar grid-tied projects, taking into account performance standards 1 to 8 of the GCF interim environmental and social safeguards (ESS). The ESMF and ESSF are consistent with performance standards 1 to 8 of the GCF interim ESS; are endorsed by the applicant's senior management; and are communicated to all levels of its organization and communicated publicly on its website. The applicant has confirmed its willingness to require its executing entities, when they execute projects implemented or financed by the applicant, to address cumulative impacts where relevant, provide an analysis of alternatives, and employ baseline data standards and mitigation hierarchy.

38. In view of the above, the applicant's ESMS comprising an ESMF and ESSF, is in line with the GCF interim ESS.

### 3.2.2 Section 6.2: Identification of risks and impacts

39. The applicant's ESMS describes the environmental and social (E&S) risk identification criteria for classifying projects based on its red, orange or green (i.e. high, moderate or low) risk categories which have been harmonized with the Asian Development Bank's safeguards system for classifying Categories A, B, C and FI (for financial institutions) projects, which is also consistent with the GCF interim ESS.

40. The applicant's ESMS includes a business process flow chart, which includes the applicant's environmental and social safeguard unit. This unit has the responsibility for the implementation of E&S risks and impacts identification and is consistent with good international industry practice and PS 1 to 8 of the GCF interim ESS. The applicant has provided evidence of its track record in terms of sample project documents for E&S risk Categories B/I-2 and C/I-3.

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<sup>5</sup> World Bank. 2013. Operational policy 4.03, "Performance Standards for Private Sector Activities". Available at <<https://policies.worldbank.org/sites/ppf3/PPFDocuments/090224b0822f7442.pdf>>.

### 3.2.3 **Section 6.3: Management programme**

41. The applicant's ESMS describes the applicant's institutional process for managing mitigation measures and actions stemming from the E&S risk identification process, which is also shown in the business flow chart. This is further complemented by several protocols containing guidelines for ensuring proper disposal of batteries and other wastes generated from solar home systems, and mini-grid and biogas projects. The applicant has provided sample projects showing how this institutional process is applied for Category B/I-2 and Category C/I-3 projects.

### 3.2.4 **Section 6.4: Organizational capacity and competency**

42. The applicant has provided an organization chart showing the placement of its environmental and social staff and their roles, responsibilities, reporting lines and authority for implementation of the ESMS. The applicant's environment and social safeguards management unit is responsible for institutionalizing the environmental and social management in its operation. The ESMS includes a flow chart of the process at each stage of the project cycle and interaction with the various relevant departments such as investment, legal, etc. The applicant has provided the curricula vitae of two full-time environmental specialists under its renewable energy department. The applicant has provided a list of various E&S related training undertaken by its technical staff to enhance their knowledge of PS 1 to 8 of the GCF interim ESS and to properly categorize potential funding proposals.

### 3.2.5 **Section 6.5: Monitoring and review**

43. The ESMS describes a monitoring and review process, including the institutional structure responsible for its implementation, and timelines for various types of reports submitted to its senior management for approval before being disclosed on the applicant's website. Evidence of communication related to approval by senior management for disclosure purposes was provided by the applicant. Sample monitoring reports for Category B/I-2 and C/I-3 projects have also been provided, including information on or examples of how supervision and auditing have helped to improve the effectiveness of the management review and have resulted in an updating of the ESMS.

### 3.2.6 **Section 6.6: External communications**

44. The applicant's ESMS indicates that it follows the Asian Development Bank's disclosure policy for Category A projects, which requires disclosure of E&S assessment documents 120 days in advance of the consideration and approval of the project. However, no clear policy is mentioned regarding Category B projects for which the GCF Information disclosure policy requires 30 days. The applicant has agreed to apply the GCF Information disclosure policy for activities financed using GCF resources.

45. The operational procedure section of the ESMS includes the description of the applicant's information disclosure policy and practice. The applicant discloses on its website various monitoring reports on the environmental and social aspects of its renewable energy projects. The applicant has provided weblinks to project documents as evidence of project-level disclosure carried out as a requirement of international funding agencies through its own website. The applicant has a provision on its website to receive and register external communications. It duly responds to grievances, queries and suggestions received through its website as well as through Facebook, as applicable. The applicant has indicated that no complaints regarding environmental or social safeguard issues have been received.

## 3.3 Gender

46. The applicant adopted a gender policy which was put into effect in January 2016 to systematically address gender-related issues. The gender policy was circulated to all of the

applicant's employees. The applicant's ESMS also contains the gender action framework developed for the project and it has also provided its gender action plan. The applicant has provided supporting documentation, including the curricula vitae of its staff to demonstrate the competencies to implement gender considerations in its project lending. The applicant has also provided sample climate change project documents with specific references to men and women that have benefitted from them. The applicant has further provided examples of projects of its executing entities which show that the projects to which the applicant lends have non-discriminatory practices in terms of benefits and remuneration for both men and women employees.

## IV. Conclusions and recommendation

### 4.1 Conclusions

47. Following its assessment, the AP concludes the following in relation to the application:
- (a) The applicant partially meets the requirements of the GCF basic fiduciary standards, specialized fiduciary standard for project management, and specialized fiduciary standard for on-lending and/or blending (for loans);
  - (b) The applicant meets the requirements of the interim ESS of the GCF in relation to the medium E&S risk (Category B/I-2). While the applicant initially applied for E&S Category A/I-1, it did not provide an adequate track record for Category A/I-1 and subsequently indicated that it wished to apply for Category B/I-2 instead; and
  - (a) The applicant has demonstrated that it has competencies, policies and procedures in order to implement its gender policy, which is found to be consistent with the Gender policy of the GCF, and has demonstrated that it has experience with gender consideration in the context of climate change.

### 4.2 Recommendation on accreditation

48. The AP recommends, for consideration by the Board, applicant APL051 for accreditation as follows:

- (a) **Accreditation type:**
  - (i) **Maximum size of an individual project or activity within a programme:** medium (including micro<sup>6</sup> and small<sup>7</sup>);
  - (i) **Fiduciary functions:**
    1. Basic fiduciary standards;
    2. Specialized fiduciary standard for project management; and
    3. Specialized fiduciary standard for on-lending and/or blending (for loans); and

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<sup>6</sup> As per annex I to decision B.08/02, "micro" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of up to and including USD 10 million for an individual project or an activity within a programme".

<sup>7</sup> As per annex I to decision B.08/02, "small" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 10 million and up to and including USD 50 million for an individual project or an activity within a programme".

- (ii) **Maximum environmental and social risk category:** medium risk (Category B/I-2) (including lower risk (Category C/I-3<sup>8</sup>)); and
- (b) **Conditions:** the applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition(s). The AP will thereafter assess whether the condition(s) has/have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes;
- (i) Conditions to be met prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
1. Provide evidence of the establishment and introduction of the policies and processes listed below:
    - a. Establish a process to monitor and assess the overall effectiveness of the internal audit function, including its procurement activities;
    - b. Adopt a code of conduct, approved by the applicant's board;
    - c. Adopt a project closure policy, approved by the applicant's board;
    - d. Adopt a policy on the public disclosure of project monitoring and evaluation reports, and project results, approved by the applicant's board; and
    - e. Adopt a policy on the public disclosure of information regarding the applicant's decisions on on-lending and/or blending operations, approved by the applicant's board; and
- (ii) Conditions to be met within one year of the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
1. Provide a copy of a procurement oversight/audit report; and
  2. Provide evidence of monitoring of the observations contained in procurement oversight/audit reports and appropriate management response and actions.
49. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 48 above, and agrees to the recommendation.

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<sup>8</sup> As per annex I to decision B.07/02, Category C is defined as "Activities with minimal or no adverse environmental and/or social risks and/or impacts" and Intermediation 3 is defined as "When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts".

## Annex XIII: Accreditation assessment of Applicant 052 (APL052)

### I. Introduction

1. Applicant 052 (APL052), the Small Industries Development Bank of India (SIDBI), is a national entity focusing on promoting and financing the development of micro-, small- and medium-sized enterprises (MSMEs), primarily those in the manufacturing and services sectors. The applicant also supports national action plans on climate change and has taken initiatives to promote responsible business practices, including sustainable financing, energy efficiency and cleaner production in the MSMEs sector through both financial and non-financial support.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 16 July 2015. The Stage I institutional assessment and completeness check was completed on 27 September 2016 and was progressed to the Stage II (Step 1) accreditation review, which has been concluded with the publication of this assessment. The applicant has applied to be accredited for the following parameters under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** direct access, national. The applicant received a national designated authority nomination for its accreditation application from India;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** large;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - (i) Basic fiduciary standards;
  - (ii) Specialized fiduciary standard for project management;
  - (iii) Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and
  - (iv) Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
- (e) **Maximum environmental and social risk category:** high risk (Category A/Intermediation 1 (I-1)).<sup>3</sup>

### II. Stage I institutional assessment and completeness check

3. The applicant applied under the normal track accreditation process and was assessed by the Secretariat during Stage I.

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<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), "large" is defined as "total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 250 million for an individual project or an activity within a programme".

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), Category A is defined as "Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented" and Intermediation 1 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented".

## 2.1 Legal status, registration, permits and licences

4. The applicant provided documents on its establishment and licences to operate, where relevant, as a part of the application. The applicant was established in 1990 under an Act of the Parliament of India (no. 39 of 1989).

## 2.2 Institutional presence and relevant networks

5. The applicant is the principal financial institution for the promotion, financing and development of the MSME sector and for the coordination of the functions of the institutions engaged in similar activities in India. It has partnered with multilateral agencies to raise resources at attractive rates and thus incentivizes and motivates MSMEs through the extension of concessional loans, equity, guarantees and technical and capacity-building assistance.

6. The applicant seeks accreditation to the GCF in order to encourage innovative mitigation and adaptation programmes for adopting low-emission and climate-resilient practices. These programmes would help MSMEs to adopt green technology options and to generate a demonstrative effect to encourage other financial intermediaries to adopt climate mitigation policies in their lending strategies. The intended climate change programmes to be implemented with GCF support include, but are not limited to:

- (a) Assistance for green, smart and eco-cities projects through public-private partnerships;
- (b) Increasing energy efficiency and cleaner production investments in green infrastructure, sustainable transport, waste to energy projects, waste recycling and management, etc.;
- (c) Providing end-to-end energy efficiency solutions to Indian MSMEs;
- (d) Providing direct assistance to solar energy and solar power projects; and
- (e) Providing training and education to stakeholders in order to increase awareness of climate change and capacity to manage resulting risks and realize opportunities.

## 2.3 Track record

7. The applicant has taken initiatives to promote responsible business practices, including sustainable financing, energy efficiency and cleaner production in the MSME sector with assistance from domestic, bilateral and multilateral funding. These initiatives have resulted in a total investment of around USD 928 million and benefited more than 6,000 MSMEs with an estimated annual electricity saving of 1,043 million kilowatt-hours and a reduction of 909 kilotonnes of carbon dioxide annually.

8. The climate change mitigation and adaptation activities undertaken by SIDBI include:

- (a) USD 55 million (loans) for the Environmental Line and Cleaner Production of Credit Project to promote investment in cleaning production;
- (b) USD 241 million (loans) for the Financing MSMEs Energy Saving Project to promote energy efficiency; and
- (c) USD 564 million (loans and guarantees) for the MSMEs Financing and Development Project.

### III. Stage II accreditation review assessment

9. The applicant applied under the normal track accreditation process, and was assessed against the standards of the GCF by the Accreditation Panel (AP) during Stage II (Step 1). It is noted that the AP did not assess any of the applicant's subsidiaries and has not issued a recommendation for any of the applicant's subsidiaries (e.g. this recommendation pertains to SIDBI itself).

10. As part of this assessment, the AP consulted the applicant's website and third-party websites to complement the information provided in the application.

#### 3.1 Fiduciary standards

##### 3.1.1 Section 4.1: Basic fiduciary standards: key administrative and financial capacities

11. The applicant has an established organization structure and oversight bodies, which are appropriate for its size and scope of operations. Its main internal oversight bodies are its board of directors, risk committee, audit committee and executive committee and, as a state-owned financial institution, it is subject to the oversight of the national parliament and is supervised by the national financial authorities.

12. The applicant maintains a financial and accounting reporting system that includes the required financial statements. As a state-owned regulated financial entity, the financial and accounting information is prepared in accordance with the guidelines established by the banking regulators and by the national Institute of Chartered Accountants.

13. The applicant's risk management framework includes a risk management function independent from the business units, documented risk management procedures and risk management tools required of a financial entity. The risk management committee of the applicant's board meets periodically and reviews the entity's risk management policies and procedures.

14. The SIDBI internal control structure is clearly documented and decision authority is clearly established in the delegation of powers documents. The applicant's board of directors oversees the internal control framework and promotes the internal control environment required of financial entities. Furthermore, the applicant's internal and external audit structure provides assurance of an effective internal control environment. The relevant regulations issued by the country's Central Bank regulate the applicant's internal audit function, including the responsibilities of the audit committee of the applicant's board. In addition to the requirements of local regulations, the applicant has established a framework of regular audits at the head office level as well as at the branch office level.

15. The applicant's procurement activities are regulated by internal regulation and by the national regulations applicable to contracts to which the state is a party. Its procurement policy establishes the mechanisms that provide reasonable assurance that the vendor selection process is appropriate, that procurement is conducted in a transparent manner and that all suppliers are treated in an equitable manner.

##### 3.1.2 Section 4.2: Basic fiduciary standards: transparency and accountability

16. The applicant's code of ethics is established in its staff regulations and its fair banking practices documentation, which are communicated to all employees. These documents establish the standards of conduct that are to be observed when performing activities on behalf of the applicant. In addition to its internal documentation, the applicant complies with the ethical guidelines and requirements established in the national regulations for public sector entities.

17. The function of an ethics committee is undertaken by the applicant's human resources department, supported by the vigilance and internal audit departments, which have the designated authority to ensure that all the actions undertaken by the applicant's employees, while fulfilling their professional duties comply with the applicant's ethical standards defined in its internal ethics documents and the applicable national regulations.

18. The applicant's investigation function is performed by the vigilance department and the internal audit department. The framework for the investigation function is based on appropriate internal regulations, the guidelines of the national vigilance commission and national banking regulations. Furthermore, the applicant has an established whistle-blower policy and is subject to the oversight of the country's central vigilance commission.

19. The applicant has an anti-money laundering (AML) and countering the financing of terrorism (CFT) programme that is appropriate to the type of financial transactions it executes as part of its regular operations. The applicant's AML/CFT policies and procedures are developed based on the requirements of the local banking authorities, including regular reporting to the country's financial intelligence unit, as well as on international standards such as those established by the Financial Action Task Force.

20. In order to comply with local regulations regarding AML/CFT, the applicant has appropriate 'know-your-customer' due diligence processes, which incorporate the following critical aspects:

- (a) A policy for customer on-boarding;
- (b) Well-defined customer identification procedures;
- (c) Procedures for the monitoring of transactions; and
- (d) Risk management based on the assignment of an AML/CFT risk score to each of its customers.

21. Furthermore, the applicant has the required automated systems to monitor suspicious transactions, these automated systems include verifying the specially designated individuals and sanctioned jurisdiction lists issued by the country's central bank.

### 3.1.3 **Section 5.1: Specialized fiduciary standard for project management**

22. For the assessment of projects, the applicant undertakes due diligence following established guidelines. The project assessment and approval guidelines include clearly defined tasks to be completed and the recording of information in the credit support systems.

23. The applicant's project management policies and procedures include at-risk project management tasks that allow for the identification of early warning signs and effective corrective actions.

24. SIDBI indicated that within its organization structure there is no independent project evaluation unit, nor does the applicant have an independent project evaluation policy. However, the evidence of independent third-party project evaluation reports was provided.

25. The applicant indicates that there is no specific policy for the disclosure of project information. However, the applicant did reference the national regulations concerning right to information, which provide mechanisms for the public to access project information that is not protected by banking secrecy regulations.

26. The applicant's project assessment and management procedures are well-documented in its loan policy, credit policy and loan recovery policy. As a financial institution, the applicant's project assessment and management procedures are contained within the credit approval process, which includes appropriate financial, 'know-your-customer' and technical analysis guidelines.

27. As an apex financial entity, the applicant has developed the required competencies and standard operating procedures to appropriately assess, monitor and evaluate the performance of the intermediaries through which it disburses project resources.

28. The applicant's procedures to monitor projects ensure that appropriate oversight is exercised and that project risks are appropriately managed. Periodic reviews aimed at identifying resource inputs, the relevance of project activities and the achievement of project performance indicators are periodically undertaken. The applicant has standardized procedures to undertake project monitoring. Project monitoring is assigned to the business units in charge of the client relationship. In order to provide assurance of the effectiveness of the project monitoring activities, the applicant has standardized procedures for the regular project oversight by the internal audit and risk functions.

29. The applicant has an established track record and experience in project management, with expertise in assessing project viability and monitoring project performance during the development and operational stages. The applicant, as its country's apex entity established to meet the financial and capacity-building needs of the MSME sector, has successfully acted as the nodal agency for financing programmes established by its country's government, as well as programmes implemented with assistance from international development entities.

#### 3.1.4 **Section 5.2: Specialized fiduciary standard for grant award and/or funding allocation mechanisms**

30. The applicant's grant award policies and procedures satisfy the requirements of the GCF specialized fiduciary standard for grant award and/or funding allocation mechanisms. Both the documented policies and the practical evidence provided, demonstrate uniform procedures for grant evaluation and award, appropriate the execution of eligibility criteria, as well as effective monitoring and evaluation of grant award programmes.

31. The applicant's grant award procedures include the clear delegation of decision authority, the establishment of appropriate grant award committees, mechanisms to ensure the appropriate use of funds as well as mechanisms for the recovery of funds that are misused.

32. The strengths of the applicant's internal controls and internal audit function provide the assurance of appropriate control over grant funds, as well as their disbursement and appropriate use.

33. The applicant has an established track record for the management of awarding grants. The applicant's track record in awarding grants includes grant programmes funded by its country's central government and those funded by international development agencies. The applicant has demonstrated its capacity to effectively serve as the nodal agency for government designed grant programmes, as well as the executing agency for international development entity-designed grant programmes.

34. In addition to the grant award programmes in which the applicant serves as the nodal or executing agency, as part of its corporate social responsibility programmes, the applicant has implemented and executed grant award programmes directed towards capacity-building efforts. These programmes are executed following appropriate grant award procedures, including the use of clear guidelines for the grant appraisal and award committees, appropriate control over the good use of funds and appropriate internal controls over the disbursement of funds.

35. It is noted that the applicant has published extensive information on its grant award programmes, however, further disclosure of grant award information (e.g. beneficiaries) will be required for programmes funded by the GCF.

#### 3.1.5 **Section 5.3: Specialized fiduciary standard for on-lending and/or blending**

36. The applicant, as its country's main apex financial entity for the MSME sector, has established policies and procedures for managing lending activities through financial intermediaries. The applicant has guidelines for evaluating financial intermediaries, which include performance indicators, and it does so periodically. The applicant provided evidence of its experience as an executing agency for credit programmes funded by international and regional development banks.

37. It is noted that the main component of the applicant's balance sheet is its refinance portfolio. However, the applicant has also implemented credit analysis and risk tools for its direct MSMEs portfolio, including risk rating tools and well-defined credit assessment and approval mechanisms.

38. The applicant provided documentation regarding its loan policy, credit manual and loan recovery policy. These documents contain the guidelines for loan operations that are required in a financial entity, such as the applicant. Furthermore, copies of credit due diligence reports, credit approval documents and loan monitoring reports were provided for assessment by the AP.

39. The applicant provided information on the specific risk metrics it calculates to assess, monitor and evaluate its risk exposures. The availability of the appropriate information, the independence of the internal auditor and of the risk management function, and the supervision of the national financial regulators provide assurance of the adequacy of the applicant's risk management environment.

40. The applicant provided extensive information regarding its financial management policies and their implementation. It has clear delegations of power and appropriate separation of functions within its treasury unit, and between the business focused units, operational units, risk management units and control units.

41. The applicant also provided copies of the minutes of its asset and liability management committee which validate the effective functioning of this committee, and copies of its investment policy and its asset and liability management policy.

42. The applicant has a proven track record deploying equity resources, however the applicant notes that it does not deploy equity on a stand-alone basis, instead it deploys equity as part of a financing package that includes quasi-equity financing such as subordinated debt. The due-diligence procedures for quasi-equity and equity include appropriate assessment of business potential and financial aspects, as well as the use of due diligence reports prepared by venture capital funds and external rating agencies.

43. The applicant has provided information regarding its capacity to issue guarantees. The information provided demonstrates the applicant's capacity to issue and manage financial guarantees. The credit due-diligence processes are appropriate and based on the same principles used for the credit analysis of loans.

## 3.2 Environmental and social safeguards

### 3.2.1 Section 6.1: Policy

44. The applicant formulated its environmental and social risk management framework (ESMF) in 2004 (revised in 2014) for its programmes financed by the World Bank. The ESMF, available on the applicant's website, covers performance standards (PS) 1 to 4 and 6 of the GCF interim environmental and social safeguards (ESS); the applicant does not finance projects involving land acquisition (PS 5), indigenous peoples (PS 7) or cultural heritage (PS 8).

45. It is important to note that the ESMF has already been adopted and applied within loan programmes to 10,000 MSMEs. The applicant complies with the national environmental and social impact assessment regulation (which covers the assessment of cumulative and ancillary

facility impacts and the use of a mitigation hierarchy) and has demonstrated the capacity to comply with other international environmental and social (E&S) standards through its successful projects with the World Bank, the Japan International Cooperation Agency, Kreditanstalt für Wiederaufbau, the Asian Development Bank, and the Department for International Development of the United Kingdom. The applicant is in the process of developing a new entity-wide ESMF, which will be rolled out from 2017 to 2020, to fully align with GCF interim ESS (e.g. it will cover PS 1 to 8 and GCF information disclosure requirements).

### 3.2.2 Section 6.2: Identification of risks and impacts

46. Under the existing ESMF, all candidate borrowers complete a screening form. The Relationship Manager (or headquarters staff in the case of projects industries with high pollution potential (E-I)) will check the information during the due diligence site visit and then determine the risk category. The regional credit officer will integrate the E&S requirements into a project's risk rating before submitting the project to the credit committee.

47. The ESMF, which applies to the applicant's programmes financed by the World Bank, categorizes those projects into the following three E&S risk groups:

- (a) E-I, industries with high pollution potential;
- (b) E-II, industries associated with some pollution; and
- (c) E-III, industries that have negligible discharge.

48. Two lists were provided, showing projects that were categorized from E-I to E-III. A project classified as E-I within the MSME sector is not typically a Category A/I-1 project, due to its small scale.

### 3.2.3 Section 6.3: Management programme

49. E&S risk management is integrated into the applicant's project cycle. The candidate borrower must have a certificate for its establishment and one to operate from the state pollution control board. These certificates are checked during the appraisal visit and loan sanctioning process. After the safeguards due diligence, the Regional Credit Officer integrates risk management measures into disbursement conditions and covenants.

50. When deciding on whether to approve a loan, the credit committee considers the appraisal note, credit risk rating, E&S risk category, status of regulatory compliance and proposed mitigation measures. The credit committee may approve, reject or stipulate additional pre- or post-E&S disbursement conditions and covenants.

51. The Relationship Manager checks that pre-disbursement conditions are met. Internal audits track loan performance during project implementation. At this time, the E&S risk management framework targets directly financed projects. The new entity-wide ESMF (2017 version) will cover the direct and indirect financing modality.

52. The AP notes that the assessment framework for an MSME sector programme has to be adapted to the MSME sector, given that a programme may involve thousands of small entities, each with a very small pollution load, but with some potential for cumulative impacts. One tool that has proven useful to assess multiple, similar projects in different locations is a programme-level strategic environmental assessment.

### 3.2.4 Section 6.4: Organizational capacity and competency

53. E&S tasks are integrated into the responsibilities of bank officers at various levels, as mentioned in sections 3.2.2 and 3.2.3 above. In addition, there are environmental staff at the central level to support the regional managers and local credit officers. The applicant provided E&S job descriptions, the curricula vitae of key in-house E&S staff, and the list of officers who have attended E&S training.

54. The applicant has conducted about 40 E&S capacity-building programmes for MSMEs, industrial associations and various industrial clusters to generate demand for energy efficiency and to build awareness of the benefits of E&S management and monitoring.

55. In order to operationalize the new ESMF (2017 version), the applicant will assess the staffing needs (e.g. its need to hire a social expert). It will revise related policies and procedures (e.g. loan policy and monitoring system) and the organization chart based on the ESMF requirements.

### 3.2.5 Section 6.5: Monitoring and review

56. The applicant reviews its clients' compliance to national environmental and labour legislation during the loan appraisal process. After loan sanction and disbursement, the relationship managers monitor and follow-up on E&S covenants through site visits. The field reports are submitted to management.

57. The applicant monitors and evaluates its international projects in collaboration with the funding agencies to comply with each agency's approach. Four progress reports and two external audits were provided to show the monitoring and evaluation of international projects. Examples were provided to show that E&S lessons were used to improve the ESMF system (e.g. integration of the code of conduct assessment).

58. The ESMF (2017 version) will provide a framework to monitor and evaluate the E&S performance of its direct and indirect financing modalities.

59. Similar to the point made in paragraph 52, on environmental assessment in the MSME sector, the AP notes that a monitoring and auditing framework for an MSME sector programme has to be adapted to the MSME sector, given that a programme may involve thousands of small entities, each with a very small pollution load, but with some potential for cumulative impacts. Typically, a representative sample number of industries can be audited, and appropriate action can be taken based on the routine monitoring reports and/or auditing results. The monitoring, evaluation, and auditing framework must provide a reasonable approach that fits the characteristics of the MSME sector programme.

### 3.2.6 Section 6.6: External communications

60. The applicant complies with the national Right to Information Act (2005). The applicant received 274 applications seeking information in 2016 and all were adequately addressed. Policies, financial statements and project-level monitoring and evaluation reports are in the public domain and on the applicant's website.

61. An enquiry or grievance, including an E&S complaint, can be received through branch and regional offices, head office, the applicant's website, or through a national government-operated grievance-redressal system. Public information officers in the applicant's complaints unit register and process enquiries and complaints, all of which are reported to a customer service committee on a quarterly basis. The applicant also has officers to process appeals. E&S complaints have not been received to date.

62. MSME projects under national law are not required to issue public notices, hold hearings, conduct environmental and social impact assessments, or strategic environmental assessments, or develop environmental and social management plans (ESMPs). If accredited by the GCF, the applicant has indicated that it will comply with GCF requirements to disclose E&S information as per the GCF Information disclosure policy.

## 3.3 Gender

63. The applicant complies with labour laws, the national gender policy, and the Convention on Elimination of All Forms of Discrimination against Women. Women employees are provided

with equal opportunities. There are also regulations that support maternity leave and protect staff from workplace sexual harassment. Although the applicant does not have an entity-wide gender policy, it has implemented programme-/project-level gender policies, programme-/project-specific gender analysis and gender training programmes.

64. Within its various projects and programmes, the applicant shows significant experience in providing microfinance to women of low income and linking to women's particular needs in health, sanitation, green energy, and savings and financial literacy. Some of its programmes have provided women entrepreneurs with easier access to credit or equity for income-generating activities.

## IV. Conclusions and recommendation

### 4.1 Conclusions

65. Following its assessment, the AP concludes the following in relation to the application:

- (a) The applicant meets the requirements of the GCF basic fiduciary standards, and partially meets the specialized fiduciary standard for project management, specialized fiduciary standard for grant award and/or funding allocation mechanisms and specialized fiduciary standard for on-lending and/or blending (for loans, guarantees and equity);
- (b) The applicant only partially meets the requirements of the interim ESS of the GCF in relation to high E&S risk (Category A/I-1);
- (c) The applicant has demonstrated that it has competencies, policies and procedures to implement the national gender policy, which is found to be partially consistent with the gender policy of the GCF. It has demonstrated that it has experience in integrating gender considerations into its programmes/projects.

### 4.2 Recommendation on accreditation

66. The AP recommends, for consideration by the Board, applicant APL052 for accreditation as follows:

- (a) **Accreditation type:**
  - (i) **Maximum size of an individual project or activity within a programme:** large (including micro<sup>4</sup>, small<sup>5</sup> and medium<sup>6</sup>);
  - (ii) **Fiduciary functions:**
    1. Basic fiduciary standards;
    2. Specialized fiduciary standard for project management;
    3. Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and

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<sup>4</sup> As per annex I to decision B.08/02, "micro" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of up to and including USD 10 million for an individual project or an activity within a programme".

<sup>5</sup> As per annex I to decision B.08/02, "small" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 10 million and up to and including USD 50 million for an individual project or an activity within a programme".

<sup>6</sup> As per annex I to decision B.08/02, "medium" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 50 million and up to and including USD 250 million for an individual project or an activity within a programme".

4. Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
  - (iii) **Maximum environmental and social risk category:** medium risk (Category B/I-2<sup>7</sup>) (including lower risk (Category C/I-3<sup>8</sup>)); and
- (b) **Conditions:** The applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition(s). The AP will thereafter assess whether the condition(s) has/have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes;
  - (i) Conditions associated with the GCF fiduciary standards, to be met prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
    1. Develop a policy for the public disclosure of information regarding projects, including grant award programmes and on-lending/blending operations, to be undertaken with GCF funds. This policy must include, at the minimum, the following:
      - a. Guidelines for the publication of independent project evaluation reports;
      - b. Guidelines for the public disclosure of information on beneficiaries of grant awards and/or loans disbursed, purpose of the grants and/or loans and amounts disbursed; and
      - c. Identification of the media/channels through which the information will be disclosed, as well as the timeline for disclosure;
    2. Establish an independent project evaluation policy and capacity;
    3. Develop, for GCF-funded grant award programmes to be implemented through executing entities, the policies and guidelines to be followed by the executing entity; and
    4. Develop the operating procedures the applicant will follow to ensure the executing entity's compliance with the policies and guidelines for the grant award programme mentioned in the previous paragraph; and
  - (ii) Condition associated with the ESS and gender policy, to be met prior to submitting the first funding proposal to the GCF for consideration:
    1. Submit to the AP for its review a copy of the new entity-wide ESMF (2017 version) and the revised policies, procedures and organization chart highlighting the integration of the 2017 ESMF into the entity.

<sup>7</sup> As per annex I to decision B.07/02, Category B is defined as "Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures" and Intermediation 2 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented".

<sup>8</sup> As per annex I to decision B.07/02, Category C is defined as "Activities with minimal or no adverse environmental and/or social risks and/or impacts" and Intermediation 3 is defined as "When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts".

67. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 66 above, and agrees to the recommendation.

### 4.3 Remarks

68. It is noted that, as previously mentioned, the applicant has served as the implementing agency for grant programmes designed by the central government and/or international development agencies. However, the applicant has limited experience independently designing grant programmes. Therefore, special attention needs to be given to the design of grant award programmes that the applicant may seek GCF funding for.

69. In this regard, the applicant indicated that specific guidelines are developed with the assistance of international development entities. It is expected that the appropriate guidelines will be developed in a similar way for programmes funded by the GCF.

70. The AP will assess whether the new ESMF is fully aligned with GCF interim standards, and will specifically confirm that the new ESMF sufficiently provides for the direct and indirect financing modality. If the AP identifies any significant gap with respect to GCF requirements, additional measures should be integrated into each specific GCF project/programme.

71. With respect to completing the environmental assessment of a programme to be funded by the GCF, the AP recommends that the applicant employ external expert(s) of international standing:

- (a) To conduct a strategic environmental assessment (SEA) (or similar assessment) for Category B/I-2 programmes; and
- (b) To prepare an ESMP for such programmes based on the results of the SEA (or similar assessment).

72. The SEA (or similar assessment) as well as the ESMP should:

- (a) Comply with GCF requirements for information disclosure and gender analysis;
- (b) Exclude any subproject that could be classified as Category A;
- (c) Provide a monitoring, evaluation and auditing system adapted to the MSME sector; and
- (d) Address both direct and indirect financing modalities (e.g. cases wherein the applicant executes part or all of the programme or in cases where the applicant works through executing entities to execute part or the entire programme on behalf of the applicant).

73. The applicant applied for the high E&S risk Category A/I-1. Given the applicant's experience and typical mandate, the AP recommended accreditation for Category B/I-2. The AP recognizes that the MSME sector typically encompasses thousands of small entities, with each entity conducting small-scale activities within industrial zones. Each subproject is likely to be Category B/I-2 or Category C/I-3. However, there are some MSME activities, no matter how small scale, which could be Category A/I-1 (e.g. projects involving the production of pesticides). All Category A/I-1 activities should be excluded at this time (see para. 72(b) above).

74. However, the applicant may wish to apply for an upgrade in its accreditation type related to the E&S risk category once it has demonstrated a track record of successfully applying GCF requirements for Category B/I-2 and Category C/I-3 projects/programmes, and has accrued a track record of implementing Category A projects/programmes under the 2017 ESMF (while using other funding sources). This could be within the first five-year accreditation period.

75. The applicant is encouraged to seek readiness and preparatory support, where applicable, to assist it with:

- (a) Rolling out the 2017 ESMF;



- (b) Revising the policy and procedural framework in the light of the 2017 ESMF in the context of GCF financing;
- (c) Preparing a programme-specific ESMP;
- (d) Implementing a programme-specific strategic environmental assessment;
- (e) Developing an independent project evaluation function; and
- (f) Designing grant award programmes.

## Annex XIV: Accreditation assessment of Applicant 053 (APL053)

### I. Introduction

1. Applicant 053 (APL053), the Micronesia Conservation Trust (MCT), is an entity based in Micronesia (Federated States of) operating in that country with a mission to promote biodiversity conservation and related sustainable development. In order to achieve its mission, it focuses on providing long-term sustained funding through grant programmes, building the capacity of organizations of the Federated States of Micronesia to design and manage conservation and climate adaptation programmes, providing regional forums for collaborations among government, the private sector, the community and non-profit organizations to collectively address the challenges of natural resource management and climate adaptation, and managing endowment funds and other piloting revolving funds for ecosystem services.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 31 December 2016. The Stage I institutional assessment and completeness check was completed on 26 April 2017 and was progressed to the Stage II (Step 1) accreditation review, which was concluded with the publication of this assessment. The applicant has applied to be accredited for the following parameters under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** direct access, regional. The applicant received nominations for its accreditation application from the national designated authorities of the Micronesia (Federated States of) and Palau;
- (b) **Track:** fast track under the Adaptation Fund;
- (c) **Maximum size of an individual project or activity within a programme:** micro;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - (i) Basic fiduciary standards;
  - (ii) Specialized fiduciary standard for project management; and
  - (iii) Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and
- (e) **Maximum environmental and social risk category:** minimal to no risk (Category C/Intermediation 3 (I-3)).<sup>3</sup>

### II. Stage I institutional assessment and completeness check

3. The applicant is eligible for, and applied under, the fast-track accreditation process as an Adaptation Fund accredited entity. Its application has been assessed by the Secretariat during Stage I in accordance with the requirements and gaps identified in decisions B.08/03 and B.10/06.

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<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), "micro" is defined as „total projected costs at the time of application, irrespective of the portion that is funded by the Fund, of up to and including US\$ 10 million for an individual project or an activity within a programme”.

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), Category C is defined as „Activities with minimal or no adverse environmental and/or social risks and/or impacts” and Intermediation 3 is defined as “When an intermediary’s existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts”.

## 2.1 Legal status, registration, permits and licences

4. The applicant provided documents on its establishment and licences to operate, where relevant, as a part of the application. The applicant is constituted as a non-profit corporation, subject to the provisions of the non-profit corporation charter, Articles of Incorporation and Bylaws of the Corporation filed with the Federated States of Micronesia Registrar of Corporations of the, and to the laws of Micronesia (Federated States of) in 2002.

## 2.2 Institutional presence and relevant networks

5. The applicant is a civil society organization comprised of 10 full-time staff and is governed by a 10-member independent board of trustees. The applicant supports biodiversity conservation, climate change adaptation and related sustainable development for the people of the Marshall Islands, Micronesia (Federated States of), the Northern Mariana Islands, Palau and the Territory of Guam. The applicant has been active in small-sized grant-making at the community level, sustaining operations and working with the government, United Nations agencies and other donors. The applicant has a diverse network at both the regional and national levels.

6. In order to advance the objectives of the GCF, the applicant aims to build the resilience of communities of the Federated States of Micronesia through ecosystem-based adaptation strategies, capacity-building, and sustainable and innovative funding mechanisms. It intends to direct resources to community stakeholders based on resource management plans, policy frameworks and strategies that have been driven primarily by community-identified needs and priorities and informed by science and other technical inputs.

7. The applicant anticipates addressing emission reductions from energy generation and access as well as increasing the resilience of health, food and water security, and livelihoods and communities. It will also continue managing the Micronesia Challenge Endowment to serve as a resource providing bridging funding for new initiatives.

## 2.3 Track record

8. The applicant has been working with local partner organizations and people at the community level, and undertakes projects largely focused on climate change adaptation. It has implemented projects related to marine and forestry conservation, the management of protected areas in small-scale and capacity-building activities.

9. The applicant's track record in financing climate change related projects includes the following:

- (a) USD 1.1 million (grants) for Building the Resilience of Communities and their Ecosystems to the Impacts of Climate Change in Micronesia and Melanesia;
- (b) USD 850,000 (grants) for Supporting More Effective Natural Resource Management in Micronesia Fisheries, management, terrestrial and nearshore conservation, scholarships;
- (c) USD 600,000 (grants) for Enhancing sustainable coral reef monitoring and management capacity for the Micronesia Challenge, and beyond;
- (d) USD 150,000 (grants) for Increasing Coastal Resilience of Micronesia's Mangroves – Terrestrial Conservation, mangrove conservation/climate change resilience; and

- (e) USD 115,000 (grants) for the implementation of Micronesia Challenge and Climate Adaptation Plans for Forest Areas in Micronesia (Federated States of) – Terrestrial conservation, Micronesia Challenge Terrestrial Goals.

### III. Stage II accreditation review assessment

10. The applicant is eligible for, and applied under, the fast-track accreditation process as an Adaptation Fund entity. Its application has been assessed by the Accreditation Panel (AP) during Stage II (Step 1) against the standards of the GCF in accordance with the requirements and gaps identified in decisions B.08/03 and B.10/06.

11. As part of this assessment, the AP consulted the applicant's website and third-party websites to complement the information provided in the application.

#### 3.1 Fiduciary standards

##### 3.1.1 Section 4.1: Basic fiduciary standards: key administrative and financial capacities

12. As per paragraph 10 above, the basic fiduciary standards concerning key administrative and financial capacities is considered to have been met by way of fast-track accreditation.

##### 3.1.2 Section 4.2: Basic fiduciary standards: transparency and accountability

13. As per paragraph 10 above, the basic fiduciary standards concerning transparency and accountability, with the exception of item 4.2.4, investigation function, and item 4.2.5, anti-money laundering and countering the financing of terrorism policies, have been met by way of fast-track accreditation.

14. Regarding item 4.2.4, the applicant has an investigation function in place, including a transparent formalized process for the submission and handling of complaints and concerns regarding actual or suspected violations of national law and actual or suspected violations of the applicant's internal policies for misconduct in the projects financed by the applicant. The whistle-blower protection policy and the mechanism that allows the public to launch complaints are available on a dedicated webpage.

15. The applicant's operations manual specifies the corresponding authorities for conducting an investigation. In particular, if the report of a concern is directed at an employee, the investigation function is carried out under the authority of the executive director, who takes a decision on the action taken regarding the disciplinary process. In cases where the complaint is directed to the executive director, the investigation function is carried out by the applicant's board executive committee that decides on actions to be taken. However, the existing investigation procedures do not describe the process of conducting the investigation itself, once the merit of it is recognized by the corresponding authority. The applicant has indicated to the AP that it is currently in the process of updating the corresponding clauses in its operations manual in order to clearly spell out the investigation process and corresponding follow-up actions.

16. The applicant has provided a statement that there have been no fraud or corruption-related investigations in the last three years.

17. Regarding item 4.2.5, the applicant has anti-money laundering and countering the financing of terrorism policies, which are approved by the applicant's board of trustees. Both policies include a statement on adherence to the corresponding national laws, the Patriot Act of the United States of America and the United Nations General Assembly resolution A/RES/70/291, and they contain the requirement to check on the United Nations and United States of America's federal list of debarred individuals or entities. However, the anti-money laundering and countering the financing of terrorism policies do not include a definition of the

prohibited practices as is required to be fully in line with the list of the prohibited practices contained in the GCF interim policy on prohibited practices.

18. Risk-based 'know-your-customer' counterparty due diligence is carried out by the applicant using specific operational tools and worksheets to collect and analyse the necessary information on the credibility of the potential grantee organization, as well as on the eligibility of the potential on-granting project activity. The sample copies of recently undertaken 'know-your-customer' due diligence reports were provided.

19. The applicant has a sound mechanism for the approval and recording of the wire transfers that targets payments that are undertaken through banking transactions. Specifically, the mechanism aims to ensure that payments are approved by the designated authority and processed in accordance with a specific banking instruction. Copies of the wire transfers to the sub-contractors were provided. Due to the small amount of payments, the applicant has not deemed it necessary to develop a complex in-house electronic payment system. However, this is considered acceptable by the AP given the size of the institution and the scale of projects financed through the grant award mechanism.

### 3.1.3 **Section 5.1: Specialized fiduciary standard for project management**

20. As per paragraph 10 above, the specialized fiduciary standard for project management is considered to have been met by way of fast-track accreditation.

### 3.1.4 **Section 5.2: Specialized fiduciary standard for grant award and/or funding allocation mechanisms**

21. The applicant's grant award mechanism procedural framework is found to be mature and well-developed. The grant management procedure, contained in the policy and operations manual, as well as its supporting guidance documents include clear standardized provisions for conducting calls for proposals, evaluating proposals and awarding grants, eligibility criteria for projects and potential grantees, due diligence procedures, as well as roles and responsibilities for grant disbursements and reporting.

22. The applicant's grant award management procedure also includes standardized provisions for the recovery of funds paid to the grantees, in respect of expenditures which are unauthorized or fall outside the scope of the funding for projects, procedures for the suspension, reduction or termination of grants in the event of the beneficiary failing to comply with its obligations and systems to prevent irregularities in the use of grant funds.

23. The competitive grant award programme is managed by the applicant through the supporting manuals and scoring tools that are used by its technical committee in the preparation of the recommendations on the grant awards to the applicants' board of trustees. The terms of reference and records of the work of the technical committee and the board of trustees were provided and contain evidence of the competence and independence of their members and objectivity of the decision-making.

24. The applicant has provisions for the periodic reviews of its grant award activities and has provided the examples of the mid-term reviews of the programmes implemented in the last two years. In addition, the applicant provided reports compiled by its donor partners (multilateral organizations) containing positive observations and conclusions on the performance of the applicant in respect of its management of projects and grant award programmes.

25. Although the applicant publishes information on grant award notices on its website in the form of a press release, it does not have a formal procedure in place to provide public access to information on the grant award decisions and grant award programme results, mainly because the local communities in Micronesia (Federated States of) still do not have access to the Internet and newspapers. The applicant is currently in the process of creating a system of knowledge management to record and effectively communicate project and programme

information, results and lessons learned to the wider community. The development of the system is expected to begin in September 2017 and to be finalized by the end of 2017. Therefore, in order to fully meet the GCF specialized fiduciary standard for grant award and/or funding allocation mechanisms, the applicant would need to provide a policy for the public disclosure of grant award information and results, as well as to demonstrate the effective implementation of the policy.

26. The applicant conducts close monitoring of the projects implemented under its grant award programme and undertakes regular site visits to support its beneficiaries, disseminate best practices and maintain good relations with the grant awardees. Examples of such site visit reports were provided to demonstrate the effective implementation of the monitoring procedures.

27. Overall, following the assessment, it has been concluded that the grant award mechanisms implemented by the applicant are mature and well-established and can be applicable to GCF-funded activities subject to the development and implementation of the policy for the public disclosure of grant award information and results.

#### 3.1.5 **Section 5.3: Specialized fiduciary standard for on-lending and/or blending**

28. The applicant did not apply for assessment against this standard at this time.

## 3.2 Environmental and social safeguards

### 3.2.1 **Section 6.1: Policy**

29. While an environmental and social (E&S) policy is not required for Category C/I-3, the applicant has provided its E&S policy that was approved by its board of trustees in October 2016. This policy was developed in order for the applicant to meet the requirements of the Adaptation Fund, and also with the view to becoming accredited to the GCF.

### 3.2.2 **Section 6.2: Identification of risks and impacts**

30. The applicant has provided its updated guide to project performance, environmental and social risk assessment and management framework (dated May 2017). This document guides the applicant's staff in identifying the E&S risks and impacts of projects and programmes as they evolve over the project life cycle. The framework includes an environmental and social risk rating matrix, which rates the consequences of projects as minimal, limited or significant. These correspond to the GCF E&S risk Categories C, B and A, respectively. The applicant indicated that its grants officers, conservation programme manager or capacity building programme manager will have the primary responsibility for managing the applicable grant award and the associated projects and contracts. The applicant provided a list of project examples, and their retrospective categories (i.e. applying the newly established procedure to existing experience), indicating that the projects fall under E&S risk Category C/I-3. The applicant has planned further training of its staff in implementing its newly established E&S risk and impacts identification procedure.

### 3.2.3 **Section 6.3: Management programme**

31. The applicant has stated that currently no document describing an institutional process to identify and manage risks (including unanticipated risks and impacts) exists. The applicant's Monitoring and Evaluation Specialist is in the process of developing an institutional monitoring and evaluation system to include the requisite processes for monitoring mitigation measures, including unanticipated risks and impacts, which is expected to be available by September 2017. The document will also include designated roles and responsibilities for implementing the projects and programmes.

### 3.2.4 **Section 6.4: Organizational capacity and competency**

32. The applicant has provided an organization chart and indicated roles and responsibilities of its staff related to E&S risks and impacts identification and management. The staff have adequate knowledge of performance standards 1 to 8 of the GCF interim environmental and social safeguards, and are able to properly categorize potential funding proposals through a screening process.

3.2.5 **Section 6.5: Monitoring and review**

33. The applicant has provided a description of its project monitoring process in its operations manual, and in the use of the grant instruments. However, it has not provided sample project monitoring reports with respect to E&S requirements. The applicant is willing to maintain such data for projects and programmes financed using GCF resources.

3.2.6 **Section 6.6: External communications**

34. The applicant's documented procedure with assigned responsibilities for receiving, registering and handling complaints is provided in its policy and operations manual. The applicant's website for sharing relevant E&S reports with the public is under design. The applicant indicated that its register for receiving and responding to E&S related complaints does not currently exist, however, there have been no complaints launched against it. However, the applicant is willing to maintain such a registry for projects financed using GCF resources.

### 3.3 Gender

35. The applicant has provided its final approved gender policy, which is in line with the GCF Gender policy. The applicant also provided its gender assessment tool to implement its policy. The applicant stated that all of the projects to which the applicant provides financing have non-discriminatory practices. The applicant's staff have undergone gender training and it has demonstrated its project and programme experience with gender consideration in the context of climate change. However, the applicant could not provide sample projects showing gender disaggregated data and non-discriminatory practices in terms of benefits and remuneration for both men and women employees.

## IV. Conclusions and recommendation

### 4.1 Conclusions

36. Following its assessment and noting that the applicant has applied under the fast-track accreditation process, the AP concludes the following in relation to the application:

- (a) The applicant partially meets the requirements of the GCF basic fiduciary standards, meets the specialized fiduciary standard for project management and partially meets the specialized fiduciary standard for grant award and/or funding allocation mechanisms. In the course of the accreditation assessment, some minor procedural gaps were identified, in particular with regard to the investigation procedures and a procedure for making information on the grant award decisions and grant award results publicly available;
- (b) The applicant partially meets the requirements of the interim environmental and social safeguards of the GCF in relation to the minimal to no E&S risk (Category C/I-3). The applicant's system to systematically carry out and document E&S mitigation and management measures and related subsequent E&S monitoring of its programmes is under development. The applicant's external communications system, particularly its channels and website to receive, register and respond to E&S related complaints, is under development; and

- (c) The applicant's gender policy and related assessment tools demonstrate that it has the required competencies, policies and procedures in order to implement its gender policy in line with the GCF Gender policy. However, the applicant did not provide adequate evidence of track record in implementing its gender policy.

## 4.2 Recommendation on accreditation

37. The AP recommends, for consideration by the Board, applicant APL053 for accreditation as follows:

(a) **Accreditation type:**

(i) **Maximum size of an individual project or activity within a programme:** micro;

(ii) **Fiduciary functions:**

1. Basic fiduciary standards;
2. Specialized fiduciary standard for project management; and
3. Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and

(iii) **Maximum environmental and social risk category:** minimal to no risk (Category C/I-3); and

(b) **Conditions:** the applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition(s). The AP will thereafter assess whether the condition(s) has/have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes.

(i) Condition to be met for each funding proposal:

1. Provide in its funding proposal a gender action plan that reflects the applicant's adequate competency in terms of human and financial resources and a system for maintaining data that addresses gender aspects in line with the GCF Gender policy;

(ii) Conditions to be met prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:

1. Provide an investigation procedure containing the description of the investigation process and corresponding follow-up actions to be taken;
2. Provide anti-money laundering and countering the financing of terrorism policies that are fully in line with the GCF interim policy on prohibited practices;
3. Provide an approved policy for the public disclosure of the decisions on grants awarded under a grant award programme;
4. Provide evidence of the adoption of the applicant's procedures for the mitigation, management and monitoring of the E&S risks and impacts, including those that are unanticipated, of its programmes; and
5. Provide evidence of the establishment of an external communication channel, which may include a website to receive, register and respond to E&S complaints; and

(iii) Condition to be met within one year of the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:

1. Provide evidence of the implementation of the policies and procedures referred to in paragraph 37(b)(ii)(3) above, in regard to the public disclosure of the results of the grants awarded under a grant award mechanism, under the projects/programmes approved and funded by the GCF.

38. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 37 above, and agrees to the recommendation.

### 4.3 Remarks

39. The applicant may wish to consider providing to the AP, through the Secretariat, information on the knowledge management system referred to in paragraph 25 once it is launched.

## Annex XV: Accreditation assessment of Applicant 054 (APL054)

### I. Introduction

1. Applicant 054 (APL054), the Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU), is an international private-sector entity headquartered in Japan. As one of the largest commercial banks in Japan, BTMU provides comprehensive financial services and products globally through a variety of financial instruments. The applicant has funded sustainable development and climate projects with a focus on renewable energy, including hydropower, geothermal, solar power and wind, and infrastructure including railways, with a goal to contribute towards solving social issues through core financial businesses, as well as realizing a sustainable society.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 23 May 2015. The Stage I institutional assessment and completeness check was completed on 14 July 2016 and was progressed to the Stage II (Step 1) accreditation review, which has been concluded with the publication of this assessment. The applicant has applied to be accredited for the following parameters under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** international access;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** large;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - (i) Basic fiduciary standards; and
  - (ii) Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
- (e) **Maximum environmental and social risk category:** high risk (Intermediation 1 (I-1)).<sup>3</sup>

### II. Stage I institutional assessment and completeness check

3. The applicant applied under the normal track accreditation process, and was assessed by the Secretariat during Stage I.

#### 2.1 Legal status, registration, permits and licences

4. The applicant provided documents on its establishment and licences to operate, where relevant, as a part of the application. The applicant was established in 2006 from the merger of The Bank of Tokyo–Mitsubishi, Ltd. and UFJ Bank Limited, and was authorized by the Ministry of Finance under Kura No. 8950.

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<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), “large” is defined as “total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 250 million for an individual project or an activity within a programme”.

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), category A is defined as “Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented” and Intermediation 1 is defined as “When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented”.

## 2.2 Institutional presence and relevant networks

5. The applicant provides finance globally and has a strong presence and operations in about 50 countries across Africa, Asia, Eastern Europe and Latin America. As one of the largest commercial banks in Japan, the applicant has also provided financing as a part of Japan's overseas development assistance in the environmental field. With the capability to provide financial support for climate change mitigation and adaptation projects, the applicant aims to expand its support as an implementing intermediary of the GCF by providing the following financial services, which may include:

- (a) Providing funds, such as loans, received from the GCF, to be blended with the applicant's own resources;
- (b) Intermediating subordinated loans from the GCF and co-financing senior loans with other banks or funds; and
- (c) Structuring projects and making projects feasible by applying guarantees through the GCF for risks which commercial banks cannot undertake.

6. In particular, the applicant plans to prepare developing countries for accessing climate finance by catalysing its readiness support programme to allow them to adopt climate-resilient development pathways. It also intends to improve its capacity to finance larger projects that have broader positive impacts on the environment. Additionally, the applicant intends to support country ownership by assisting subnational and national entities to meet the requirements of the GCF by using its own accreditation experience.

## 2.3 Track record

7. The applicant mobilizes financial resources for its climate change projects and programmes by partnering with other financial institutions and international organizations. It also participates in public-private partnerships through collaborations with national and subnational entities. The applicant intends to continue cooperating with the public and private sector organizations in order to achieve adaptation and mitigation of climate change impacts.

8. The applicant has a track record in financing sustainable development and climate change-related projects in the areas of renewable energy and transportation, using loans, equity and guarantees as financial instruments. In 2016, the applicant was ranked No.1 in Bloomberg's Lead Arranger for Clean Energy & Smart Technologies league table<sup>4</sup> by closing USD 2.9 billion of the relevant projects. This was largely attributable to the initiatives the applicant has undertaken in renewable energy (solar, hydropower, wind and thermal) around the world.

9. The applicant's climate change-related projects include the following:

- (a) USD 273.52 million (loans) for the Barka Independent Water Desalination Project in Oman;
- (b) USD 644.72 million (loans) for the 290 MW Nam Ngiep I Hydropower Plant Project in Laos;
- (c) USD 1,170.0 million (loans) for the 321 MW Sarulla Geothermal Project in Indonesia; and
- (d) USD 225.0 million (loans) for the 115 MW Parque Eolico El Arrayan Wind Power Plant in Chile.

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<sup>4</sup> The information is available at <<https://data.bloomberglp.com/bnef/sites/14/2017/01/BNEF-2016-Clean-Energy-EST-League-Tables-1.pdf>>.

### III. Stage II accreditation review assessment

10. The applicant applied under the normal track accreditation process, and was assessed against the standards of the GCF by the Accreditation Panel (AP) during Stage II (Step 1).
11. As part of this assessment, the AP carried out a site visit to the applicant's headquarters, consulted the applicant's website and third-party websites, such as the Financial Action Task Force on Money Laundering, to complement the information provided in the application.

#### 3.1 Fiduciary standards

##### 3.1.1 Section 4.1: Basic fiduciary standards: key administrative and financial capacities

12. The applicant has an established organizational structure and oversight bodies which are appropriate for its size and the global scope of its operations. The applicant's main oversight bodies include the governance committee of its board (whose main role is oversight of corporate governance, policies and operational approach), the internal audit and compliance committee (which oversees the internal audit, financial reporting and regulatory compliance functions), and the risk committee (which handles matters relating to risk management and control).
13. The applicant's financial information is disclosed as part of the reporting of its parent company, Mitsubishi UFJ Financial Group (MUFG). The parent company files financial statements to both the Japanese authorities and the Securities and Exchange Commission of the United States of America. Preparation of the financial statements follows the Japanese Generally Accepted Accounting Principles and the United States Generally Accepted Accounting Principles. The applicant's annual financial statements are audited by an independent external audit firm. The information provided in the audit reports shows that the external auditors conduct the audits in accordance with auditing standards generally accepted in Japan. Copies of consolidated audited annual financial statements for MUFG for the past five years were provided. The applicant also demonstrated that it has a sound information and reporting system, which generates timely and accurate information required for managerial decisions and regulatory reporting.
14. The applicant's internal audit framework is based on the International Professional Practice Framework issued by the Institute of Internal Auditors. A process for periodic assessment of the overall effectiveness of the internal audit function is in place. An assessment carried out by one of the big four global accounting firms in 2013 concluded that there were no major gaps between the applicant's internal audit system and that prescribed by the Institute of Internal Auditors.
15. The applicant has in place a control framework which is in line with the "Internal Control Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The control framework is adopted to meet regulatory requirements in the jurisdictions in which the applicant operates. The applicant has a comprehensive written guide which sets internal policies, procedures and delegation of authority for disbursements. The procedures provide for a clear segregation of approval and disbursement responsibilities and authorities.
16. The applicant has a well-documented risk assessment and management process that allows it to identify, assess and provide a basis for proactive risk responses in each of the financial management areas. Risks are assessed at multiple levels, and plans of action are in place for addressing risks that are deemed significant or frequent.
17. The applicant has documented standards and procedures which specify procurement requirements, accountability and authority to make procurement decisions. The procedures provide reasonable assurance that the vendor selection process is appropriate, that

procurement is conducted in a transparent manner and that suppliers are treated in an equitable manner.

18. While the applicant meets all other GCF requirements relating to the GCF basic fiduciary standard on key administrative and financial capacities, it has not provided evidence of:

- (a) The checks and audits of the payment and disbursement of funds under projects financed by the applicant;
- (b) The required procedures for overseeing procurement activities of executing entities under activities that would be funded by the GCF;
- (c) A policy requiring public disclosure of procurement policies/procedures and awards under projects that would be funded by the GCF; and
- (d) An accessible and transparent procurement dispute resolution process in respect of activities that would be funded by the GCF.

19. However, the applicant is currently in the process of developing the required policies and procedures to meet the requirements of the GCF.

### 3.1.2 **Section 4.2: Basic fiduciary standards: transparency and accountability**

20. The applicant has a code of ethics, known as the “Principles of Ethics and Conduct”, which applies to all of its employees. The code is available through the applicant’s internal portal and booklets distributed to all employees, who are also required to attend mandatory training sessions. To ensure compliance with the code, a whistle-blowing system exists through which employees can contact a “compliance hotline”. The applicant has appointed independent law firms as external whistle-blowing contacts for employees to report possible violations of laws and regulations to ensure the independence and integrity of the process is maintained. The applicant’s “Principles of Ethics and Conduct” is complemented by a financial disclosure policy that establishes the necessary financial disclosures of possible, actual, perceived or apparent conflicts of interest by its employees.

21. The applicant has a structure for investigating cases of misconduct. Investigations are handled either internally or through the use of third parties such as law firms, depending on the nature of the case. Information on investigated cases of misconduct is eventually reported to the internal audit and compliance committee of the applicant’s board.

22. The applicant has a comprehensive anti-money laundering (AML) and countering the financing of terrorism (CFT) policy detailed in its standard compliance manual. The policy has four pillars:

- (a) Verification of customer identification by official documents;
- (b) Conducting know-your-customer due diligence to provide reasonable assurance that the customer is not using the bank for illegal or improper activities;
- (c) A strict embargo on providing services or products to shell companies that have no physical presence in any jurisdiction; and
- (d) The identification and reporting of suspicious transactions to authorities in all jurisdictions where the applicant operates.

23. As part of its ‘know-your-customer’ due diligence process, the applicant uses the questionnaire procedures which are widely adopted by global banks to obtain the required customer information. The applicant’s overall AML/CFT policies are based on international best practice standards, specifically the 40 recommendations of the Financial Action Task Force, as well as the requirements of the regulators in the countries where the applicant operates.

24. The applicant uses a transaction filtering system and “due diligence decision sheets” to monitor electronic funds transfers. Copies of recent electronic funds transfer monitoring

reports were provided. The information provided demonstrates the presence of a mechanism for tracing and monitoring the electronic transfer and wiring of funds.

25. In spite of having a comprehensive AML/CFT policy in place, the applicant has been subject to regulatory action due to failures in its internal control and compliance systems. The regulatory actions have been settled at a significant financial cost to the institution. The applicant has taken actions to address the weaknesses in its regulatory compliance in the United States and in the United Kingdom of Great Britain and Northern Ireland (only applicable to paragraph 25(d) below) jurisdictions. Specifically, the applicant has:

- (a) Installed an independent consultant for a term of one year to evaluate risk controls relating to sanctions compliance and the implementation of appropriate corrective measures;
- (b) Taken measures to improve its United States Bank Secrecy Act and AML-related sanctions compliance programmes, policies and procedures, and to enhance management oversight of those programmes;
- (c) Relocated its United States Bank Secrecy Act and AML compliance and Office of Foreign Assets Control sanctions compliance programmes to New York to facilitate compliance oversight by relevant authorities in the United States of these programmes; and
- (d) Developed and implemented measures to enhance the sharing of information relating to regulatory investigations with authorities in jurisdictions where the applicant has operations.

26. In order to fully meet the requirements relating to the GCF basic fiduciary standard on transparency and accountability the applicant needs to develop and put in place an appropriate mechanism with clear terms of reference for continuous oversight of the ethics function. The applicant should also provide evidence to show that an independent assessment of the effectiveness of the measures and actions for improving its AML and sanctions compliance programmes has been carried out.

**3.1.3 Section 5.1: Specialized fiduciary standard for project management**

27. The applicant did not apply for accreditation against this standard at this time.

**3.1.4 Section 5.2: Specialized fiduciary standard for grant award and/or funding allocation mechanisms**

28. The applicant did not apply for accreditation against this standard at this time.

**3.1.5 Section 5.3: Specialized fiduciary standard for on-lending and/or blending**

29. The applicant, a global commercial bank with presence and operations in about 50 countries across Africa, Asia, Eastern Europe and Latin America, has an established track record, institutional experience and capacities for on-lending and blending with resources from other international commercial banks and multilateral development finance institutions. Its on-lending and blending operations are supported by comprehensive operational procedures that guide the due diligence process. All of the applicant's transactions are required to undergo a "Ringi" process – an assessment and approval procedure. As an institution that has adopted the Equator Principles (EP), the applicant also carries out environmental impact assessments as part of the due diligence process.

30. The applicant is a global leader in project finance and has a proven track record as a mandated lead arranger. This track record demonstrates that the applicant has the required controls and procedures to adequately manage financial resources received from third parties as well as for ensuring that the financing it provides is channelled transparently and used effectively. Project examples that demonstrate the applicant's capacity to manage projects that use loans, guarantees and equities as the investment instrument were provided.

31. The applicant provided ample evidence of its expertise in successfully structuring and closing project finance transactions. These transactions require the securing of funds from various sources and the use of a variety of instruments (e.g. loans, guarantees and equity investments). The applicant's credibility to attract investors to co-finance the transactions it structures is demonstrated by the global market leadership position it has attained.
32. The applicant has been rated by each of the three rating agencies. Its long-term rating by Standard & Poor's Rating Service, Moody's Investor Service and Fitch Group is A+, A1 and A, respectively.
33. While the applicant meets all other GCF requirements relating to the specialized fiduciary standard for on-lending and/or blending for loans, equities and guarantees, it does not have policies or guidelines for providing information to the public regarding its decisions on on-lending and/or blending operations in respect of projects that would be funded by the GCF. However, the applicant is currently in the process of developing the required policies to meet the requirements of the GCF.

## 3.2 Environmental and social safeguards

### 3.2.1 Section 6.1: Policy

34. The applicant's environmental and social management system (ESMS) has been built around the EP, which is based upon the Performance Standards of the International Finance Corporation. The applicant first adopted the EP in December 2005 and started applying the EP II to all of its projects since July 2006. In June 2013, the EP went through another revision and the applicant started applying EP III<sup>5</sup> in January 2014. As an EP financial institution, the applicant adheres to all of the EP requirements when extending loans to projects and its ESMS has achieved substantial progress in tandem with the EP progress since 2013. The applicant's ESMS is therefore in line with the GCF interim environmental and social safeguards (ESS). The ESMS includes the requirement that the applicant's executing entities, in implementing projects financed by the applicant, address cumulative impacts, analysis of alternatives, baseline data standards and mitigation hierarchy.

### 3.2.2 Section 6.2: Identification of risks and impacts

35. The applicant's environmental and social (E&S) risks and impacts identification and assessment procedure is conducted in line with the implementation guidelines for EP III. The procedure is integrated into the business process as described in the applicant's business workflow process. The applicant's Social & Environmental Risk Assessment Office (SERAO) is responsible for the E&S risks and impacts identification and assessment. SERAO conducts the E&S risks and impacts identification and assessment following its operation guideline, which provides the procedure for the E&S risks and impacts identification and assessment. The applicant uses an environmental and social impact assessment checklist for the risk assessment of the Intermediation 1 and Intermediation 2 projects in line with the requirements of the performance standards 1 to 8 of the GCF interim ESS. The environmental and social impact assessment and categorization procedure of the applicant was externally audited as shown in

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<sup>5</sup> EP III extended its scope of applicable products to project-related corporate loans and bridge loans. Growing attention to climate change led to the EP requirement for the project proponent to publicly report the project's greenhouse gas emission levels annually during operation when greenhouse gas emission levels exceed 100,000 tonnes of carbon dioxide equivalent. In terms of transparency, the EP requires that the project's environmental and social impact assessment summary is accessible and available online, and each EP financial institution is required to report project information to the EP association so that the EP association may post the information on its website subject to the project proponent's consent. Monitoring is another aspect of the EP III that has been strengthened from its previous iteration. To assess project compliance with the EP III and to ensure ongoing monitoring and reporting after financial close and over the life of the loan, the appointment of an independent environmental and social consultant is required for all Category A and, as appropriate, Category B projects.

the independent assurance report indicating the applicant's adherence to its policies. The applicant also provided a list of projects from the past three years and their E&S risk categories determined in line with the performance standards 1 to 8 of the GCF interim ESS.

### 3.2.3 **Section 6.3: Management programme**

36. The applicant conducts E&S assessments per its internal procedures for the application of the EP using the environmental and social impact assessment checklist. For the Intermediation 1 and Intermediation 2 projects, the applicant requires the borrower of Intermediation 1 and Intermediation 2 projects to establish and maintain an ESMS. The applicant's borrowers are required to have an independent environmental and social consultant not directly associated with the client to prepare an environmental and social impact assessment and an environmental and social management plan (ESMP) regarding the matters identified in the assessment process. The establishment of an ESMS for all Intermediation 1 and Intermediation 2 projects is checked by SERAO. The applicant's environmental and social impact assessment review may also receive and integrate comments by an independent environmental and social consultant. In addition, compliance with the ESMP and periodic reports, which document compliance with the ESMP, is reflected in financing agreements for all Intermediation 1 and Intermediation 2 projects.

37. The applicant provided examples of an environmental and social impact assessment and an ESMP. The applicant also provided a sample independent assurance report conducted by the independent auditor to review the applicant's E&S assessment process, indicating compliance with its application of the EP.

### 3.2.4 **Section 6.4: Organizational capacity and competency**

38. The applicant has provided its organizational structure related to E&S considerations and its reporting lines and responsibilities including its senior management and the experience of its staff as it relates to the application of performance standards 1 to 8 of the GCF interim ESS. The applicant's SERAO has the primary responsibility for the review of implementation of the EPs. SERAO consists of a general manager and four team members. The key responsibilities and implementation process are communicated through an internal website and through the internal education and training programme conducted by SERAO. The team members of SERAO also attend training programmes such as the International Finance Corporation's Performance Standard Community of Learning on a regular basis. The site visit conducted by the AP further confirmed the applicant's E&S organizational capacity and experience on E&S matters.

### 3.2.5 **Section 6.5: Monitoring and review**

39. The applicant has provided a description of its internal processes to support project monitoring as per the implementation guidelines for the EP. For all E&S risk Intermediation 1 and Intermediation 2 projects, the periodic reports prepared by in-house staff or third-party experts document compliance with the ESMP, and provide representations of compliance with relevant local, state and host country environmental and social laws, regulations and permits by a borrower based on the financial agreement with the applicant. The applicant checks the compliance with the covenants in the financial agreement by regular reporting submitted by a borrower in the case of project finance. Monitoring reports prepared by the members of SERAO are submitted to senior management every quarter to acknowledge the conditions of the projects.

40. Based on its experience with supervision, the applicant has improved the effectiveness of the management as evident from the updated checklist and the applicant's adoption of progressive improvements in the application of the EP. The results of E&S supervision and auditing are made available on the applicant's website to help disseminate the EP implementation process both internally and to the public.

### 3.2.6 **Section 6.6: External communications**

41. The applicant's external communication process is contained in its implementation guidelines for the EP, and in the internal procedures for the application of the EP. The information related to the applicant's implementation of the EP is communicated externally through its website. The applicant has an organizational structure for environmental and social communications and receives a wide range of information and proposals on social and environmental initiatives through dialogue with stakeholders, including non-governmental organizations. The applicant takes such information into consideration when making decisions on project financing. Additionally, project information is published by the EP association on its website in the case of project finance.

42. In the past three years, the applicant has not received any enquiries, complaints or responses regarding the projects or the implementation of the EPs. The applicant has provided details of one specific complaint it had received from a non-governmental organization in 2011 and how it was assessed and responded to. The applicant also shared its corporate social responsibility report with the public, including its E&S activities, to receive public opinion through its bank holding company in which the applicant serves as the core retail and commercial banking arm.

43. The applicant has provided its procedure on the public consultation and disclosure procedures it will apply for activities financed using the GCF resources. The applicant's procedure for the public disclosure and consultation with project stakeholders of E&S project documents, including a grievance mechanism at the level of the applicant's own institution as well as at the level of its executing entities, is in line with the GCF Information Disclosure policy.

### 3.3 Gender

44. The applicant has provided its draft gender policy which is in line with the GCF Gender policy. Although the applicant's gender policy has not yet been adopted, the applicant has provided sample projects it has financed that demonstrate experience with gender and climate change, including a track record of lending to both men and women as well as evidence to show that projects to which the applicant lends have non-discriminatory practices in terms of benefits and remuneration for both men and women employees.

## IV. Conclusions and recommendation

### 4.1 Conclusions

45. Following its assessment, the AP concludes the following in relation to the application:

- (a) The applicant partially meets the requirements of the GCF basic fiduciary standards and specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees;
- (b) The applicant meets the requirements of the interim ESS of the GCF in relation to the high E&S risk (I-1); and
- (c) Although the applicant's gender policy has not yet been adopted, the applicant has demonstrated that it has competencies and procedures in order to implement its gender policy, which is found to be consistent with the gender policy of the GCF, and has demonstrated that it has experience with gender considerations in the context of climate change.

### 4.2 Recommendation on accreditation

46. The AP recommends, for consideration by the Board, applicant APL054 for accreditation as follows:

(a) **Accreditation type:**

(i) **Maximum size of an individual project or activity within a programme:**

large (including micro,<sup>6</sup> small<sup>7</sup> and medium<sup>8</sup>);

(ii) **Fiduciary functions:**

1. Basic fiduciary standards;
2. Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and

(iii) **Maximum environmental and social risk category:** high risk (I-1) including lower risk (Intermediation 2<sup>9</sup> and Intermediation 3<sup>10</sup>); and

(b) **Conditions:** the applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition(s). The AP will thereafter assess whether the condition(s) has/have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes:

(i) Condition to be met prior to signature of the accreditation master agreement for completion of Stage III of the accreditation process:

1. Provide a report on an independent assessment of the effectiveness of the applicant's measures and actions for improving its AML and sanctions compliance programmes; and

(ii) Conditions to be met prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:

1. Provide evidence to show that the applicant:
  - a. Carries out checks and audits of the payment and disbursement of funds under projects financed by the applicant;
  - b. Has a publicly accessible and transparent procurement dispute resolution process;

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<sup>6</sup> As per annex I to decision B.08/02, "micro" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of up to and including USD 10 million for an individual project or an activity within a programme".

<sup>7</sup> As per annex I to decision B.08/02, "small" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 10 million and up to and including USD 50 million for an individual project or an activity within a programme".

<sup>8</sup> As per annex I to decision B.08/02, "medium" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 50 million and up to and including USD 250 million for an individual project or an activity within a programme".

<sup>9</sup> As per annex I to decision B.07/02, Category B is defined as "Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures" and Intermediation 2 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented".

<sup>10</sup> As per annex I to decision B.07/02, Category C is defined as "Activities with minimal or no adverse environmental and/or social risks and/or impacts" and Intermediation 3 is defined as "When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts".

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- c. Has an appropriate mechanism with clear terms of reference for continuous oversight of the ethics function;
  - d. Has procedures for overseeing procurement activities of executing entities under GCF-funded activities;
  - e. Has a policy requiring the public disclosure of procurement policies and procedures, and procurement contract awards under GCF-funded activities;
  - f. Has a policy and guidelines on the public disclosure of information regarding the applicant's decisions on on-lending and/or blending operations in respect of activities that would be funded by the GCF; and
  - g. Has adopted a gender policy in line with the GCF Gender policy; and
- (iii) Condition to be met within one year of the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
- 1. Provide evidence of the implementation of the items identified in paragraph 46(b)(ii) above.
47. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 46 above, and agrees to the recommendation.

## Annex XVI: Accreditation assessment of Applicant 055 (APL055)

### I. Introduction

1. Applicant 055 (APL055), the Japan International Cooperation Agency (JICA), is an entity headquartered in Japan with a strong global presence. The applicant has been providing financial and technical support to climate change mitigation and adaptation projects, focusing on energy efficiency, renewable energy, public transport systems, stable water supply, climate-resilient agriculture, sustainable forest management, disaster risk reduction and coastal protection. Building upon international best practices, the applicant aims to make the best use of Japanese knowledge, experience and technologies in driving a paradigm shift towards a low-carbon and climate-resilient society in developing countries.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 4 December 2015. The Stage I institutional assessment and completeness check was completed on 8 February 2017 and was progressed to the Stage II (Step 1) accreditation review, which was concluded with the publication of this assessment. JICA has applied to be accredited for the following parameters under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** international access;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** large;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - (i) Basic fiduciary standards;
  - (ii) Specialized fiduciary standard for project management;
  - (iii) Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and
  - (iv) Specialized fiduciary standard for on-lending and/or blending (for blending); and
- (e) **Maximum environmental and social risk category:** high risk (Category A/Intermediation 1 (I-1)).<sup>3</sup>

### II. Stage I institutional assessment and completeness check

3. The applicant applied and was assessed by the Secretariat during Stage I under the normal track accreditation process.

#### 2.1 Legal status, registration, permits and licences

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<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), “large” is defined as “total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 250 million for an individual project or an activity within a programme”.

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), Category A is defined as “Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented. High level of intermediation (I1): When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented”.

4. The applicant provided documents on its establishment and licences to operate, where relevant, as a part of the application. JICA was established by the Government of Japan in 1974 and is registered under the Act on General Rules for Incorporated Administrative Agency (1999). This law does not allow the applicant to borrow long-term money from international organizations like the GCF, however, the applicant has a track record in financing projects by blending resources from international sources to increase the project viability and impacts. As such, the applicant applied for the specialized fiduciary standard for on-lending and/or blending for blending only (see para. 2 (d)(iv) above).

## 2.2 Institutional presence and relevant networks

5. The applicant has a strong global presence and operations in the Asia-Pacific region, Africa, Latin America, the Middle East, as well as Europe. This global presence has allowed the applicant to establish and deepen relationships with national governments and other national and international institutions, and to contribute towards the environmental resiliency of developing countries through the projects it finances.

6. As a Japanese Government organization, the applicant has indicated that it is in a position to make the best use of Japanese advanced knowledge, technology and experience in combating climate change. Particularly, it intends to provide new solutions to the small island developing States in the areas of energy, coastal ecosystem and resources management, water and waste management.

7. The applicant seeks accreditation to the GCF in order to:

- (d) Support climate actions of the small island developing States;
- (e) Support climate-related disaster risk reduction projects; and
- (f) Apply innovative technologies to climate change mitigation and adaptation projects.

8. In addition, the applicant plans to provide on-site capacity support and training programmes for potential national entities to meet GCF accreditation criteria in areas of internal audit, financial management, procurement, stakeholder engagement and environmental and social standards.

## 2.3 Track record

9. Over the past 43 years, the applicant has contributed to the United Nations Millennium Development Goals, infrastructure improvement, human resource development, global environment development, rural development, industrial development and public policy and initiatives such as public-private partnerships.

10. In particular, the applicant has contributed towards both climate change mitigation and adaptation by introducing renewable energy and energy-saving projects, improving urban public transportation system, developing forest management and afforestation projects, providing tailored capacity-building for individual countries and providing support for climate change measures in developing countries.

11. The applicant has a track record in financing climate change related projects in the sectors of energy, transport, forestry, land use, institutional systems, infrastructure, water management and ecosystem. Activities related to climate change financed by the applicant include:

- (a) JPY 992 million (technical cooperation) for the Participatory Forest Management Project in Belete-Gera Regional Forest Priority Area (Phases 1 and 2) in Ethiopia;

- (b) JPY 683 million (grant) for the Project for Upgrading of the Mechanical System for Sewerage and Drainage Service in Faisalabad in Pakistan;
- (c) JPY 268.1 billion (concessional loans) for Mass Transit System Project (Phases I to III) in Bangkok (Red Line) in Thailand;
- (d) JPY 6.7 billion (grant) for the Project for Rehabilitation of Baluchaung No. 2 Hydropower Plant in Myanmar; and
- (e) JPY 80 billion (concessional loans) for the Support Programme to Respond to Climate Change (Phases I to VII) in Vietnam.

### III. Stage II accreditation review assessment

12. The applicant applied under the normal-track accreditation process. Its application has been assessed against by the Accreditation Panel (AP) during Stage II (Step 1) against the standards of the GCF in accordance with the accreditation requirements.

13. As part of this assessment, the AP carried out a site visit to the applicant's headquarters and consulted the applicant's website to complement the information provided in the application.

#### 3.1 Fiduciary standards

##### 3.1.1 Section 4.1: Basic fiduciary standards: key administrative and financial capacities

14. The applicant has a well-established governance structure with several oversight bodies, including its board of directors, audit committee, finance oversight committee and procurement oversight committee. The independent audit committee comprises three independent auditors, while the other committees comprise senior managers within the organization. The committees have clear terms of reference and their composition clearly shows that the members have the experience and expertise to effectively carry out their designated roles.

15. JICA prepares five-year medium-term strategic plans based on which it composes annual management plans along with corresponding budgets. Both the medium-term strategic plan and the annual plans are aligned with the applicant's broad mission.

16. The applicant has an internal audit office headed by a senior executive at the rank of Director General. An assessment of the effectiveness of the audit office carried out by the Institute of Internal Auditors shows that the audit office is independent and complies with the Institute of Internal Auditors' "Guidelines for the Practice of Internal Auditing".

17. The applicant uses a customized, "People Soft" financial reporting system to control revenue and expenditure accounting and financial accounting. The applicant's annual financial statements are comprehensive and allow for comparability of financial statements in terms of consistency over different reporting periods. The financial statements are audited by an independent external audit firm and the external auditor's reports provided indicate that the financial statements are prepared, presented and audited in conformity with generally accepted accounting and auditing principles (applicable to incorporated administrative agencies in Japan).

18. The applicant has a well-documented internal control framework the principal purpose of which is to ensure operational effectiveness and efficiency, compliance with applicable laws and regulations, asset preservation and proper financial reporting. The applicant's procurement activities are guided by internal regulations, which together with other evidence provided, show that the applicant's procurement practices are consistent with international practice.

### 3.1.2 Section 4.2: Basic fiduciary standards: transparency and accountability

19. The applicant has a code of ethics which applies to all employees and all contracted parties. A compliance and risk management committee is responsible for oversight of the ethics function. The applicant has documented strategies and active measures for preventing financial malpractices. These include a strong internal control framework and “Anti-Corruption Guidance”, which in addition to being publicized on the applicant’s website, is distributed to all employees, related parties such as consultants and contractors, and is disseminated to governments of partner countries and participating entities. In order to encourage the reporting of misconduct, the applicant has put in place a mechanism for protecting whistle-blowers. JICA has an in-house independent and objective function for investigating allegations of fraudulent and corrupt practices. The function is headed by a senior deputy director, a high rank in the applicant’s management hierarchy.

20. The applicant’s policy on anti-money laundering and countering the financing of terrorism is contained in its compliance manual which includes a specific section on “Rules on Response to Antisocial Forces”. As part of its ‘know-your-customer’ due diligence process, the applicant takes the necessary steps to ensure that all parties with which it has business relationships are not associated with “antisocial forces” by requiring a written pledge from the parties to this effect and checking the parties’ information against databases such as those issued by the public organization affiliated with the National Police Agency of Japan. The applicant also complies with sanction lists published by Japanese Government which reflect international measures against money laundering and countering the financing of terrorism, such as resolutions of the United Nations Security Council.

21. In order to confirm that funds’ remittances are received by the intended beneficiaries, the applicant monitors the electronic transfer of funds through two key documents: a ‘remittance specification’ letter which the applicant receives when it requests a commercial bank to remit funds, and a ‘remittance letter’ which the commercial bank sends to the applicant when the transaction is complete.

### 3.1.3 Section 5.1: Specialized fiduciary standard for project management

22. As one of the world’s largest bilateral aid agencies, with its significant experience and proven track record in financing and managing projects in 154 developing countries and over USD 20 billion in annual commitments, the applicant has comprehensive operational policies and procedures that guide project cycle management from project preparation to closure. The applicant’s procedures include guidelines for incorporating the projects’ technical, financial, economic and legal aspects as well as possible environmental, social and climate change aspects, and relevant assessments thereof, into the funding proposals at the appraisal stage.

23. The applicant has well-documented project risk assessment procedures, including the development of appropriate risk mitigation and management strategies. The risk management function is differentiated from project implementation and supervision responsibilities. The sample project preparation, appraisals, monitoring and closure reports provided demonstrate the effective use of the operational policies and procedures. The applicant uses a two-stage project-at-risk system as an early warning system to identify and address project problems in a timely manner. At the operational level, the applicant’s implementing department identifies risks during the project monitoring process. The risks are shared/reviewed with the applicant’s related departments and recipient countries. All the parties involved participate in devising measures to address the risks; and if the risks become serious, they are elevated to the high level meeting / monitoring process, in which the applicant’s board members are involved. Examples of project problems identified and the mitigation actions taken to demonstrate the effectiveness of the system were provided.

24. The applicant has a policy and operational systems, procedures and formats for the preparation of project implementation plans as well as the periodic reporting and publishing of

the status of projects during the implementation phase. Project implementation planning is supplemented by a strong monitoring and evaluation function.

25. The applicant has a policy on independent evaluation of project results. For projects considered by the applicant to be large (i.e. those over 1 billion yen) and those with a high likelihood of providing valuable lessons, ex-post evaluations are conducted by independent external experts. The sample evaluation reports provided demonstrate that the evaluation function follows impartial, widely recognized, documented and professional standards and methods. The applicant also has an evaluation disclosure policy which requires the disclosure of all external evaluation reports on the applicant's website to enhance transparency.

#### 3.1.4 **Section 5.2: Specialized fiduciary standard for grant award and/or funding allocation mechanisms**

26. The applicant has a mature grant award system that includes the defined roles and responsibilities of the grant evaluation committee, the grant approval authority and other relevant personnel. The applicant provided evidence relating to a review undertaken by the Global Fund regarding its experience in the handling of grant funds. The applicant issues grant notices in the form of grant application guides which are posted on its website to attract a wide range of potential grantees. The grant award system relies on a documented framework and formats for undertaking due diligence to assess the eligibility and capabilities of potential grant awardees and benefits from the applicant's significant experience and track record in managing a transparent grant award mechanism and awarding grants on the basis of clearly defined eligibility criteria. The due diligence process includes checking of the legality of the operations to be undertaken with the grant funds.

27. Grant award decisions are taken by the applicant based on the recommendations and consultation from external entities such as the evaluation committee which comprises staff of the applicant and representatives of selected third-party entities. The terms of reference and composition of the grant evaluation committee are disclosed on the applicant's website for transparency. The relevant ministries in Japan check to ensure that grant proposals do not include activities that contravene government laws and policies. Grant award decisions are adequately publicized on the applicant's website. Evidence documents provided by the applicant demonstrate transparency and objectivity in decision-making. While the applicant notifies all entities applying for grants of its decisions in writing, the reasons for rejection are explained in face-to-face consultation meetings with the unsuccessful grant applicants who request such meetings. The applicant uses this approach to avoid misunderstandings and disputes and to provide the grant applicant with constructive feedback on how to improve the rejected proposal should it reapply to JICA in the future.

28. The procedures for undertaking audits and checks of the expenditures made by the grantees are laid out in the applicant's accounting guidelines. The applicant has suitable procedures for the recovery of funds paid to the grantees, in respect of expenditures which are unauthorized or fall outside the scope of the funding for the project. The applicant's right to conduct audits/checks is stipulated in the grant agreements which also include the procurement rules and procedures which the grant beneficiary is required to apply, and procedures for the suspension, reduction or termination of the grant in the event of the beneficiary failing to comply with its obligations.

29. While the applicant meets all other GCF requirements relating to the awarding of grants, it does not have the required policy in place for providing public access to information on the periodic progress of individual projects, or a policy requiring periodic independent review and external audit of grant award activities, which will be required for GCF funding. However, the applicant is currently in the process of developing the required policies to fully meet the GCF requirements for this standard.

#### 3.1.5 **Section 5.3: Specialized fiduciary standard for on-lending and/or blending**

30. As indicated in paragraph 4 above, by its statute, the applicant is not permitted to obtain funds from external sources for on-lending purposes. For this reason, it intends to use GCF funds only for “blending” operations. The applicant has documented policies and procedures for its blending operations. The sample due diligence reports and related supporting documents provided by the applicant demonstrate the effective use of these policies and procedures.

31. In order to enhance rigour in credit risk management, the applicant, though not a deposit taking institution, conducts self-assessments of its credit risk management practices based on the “Inspection Manual for Deposit-Taking Institutions”, which are regulated by the Government Financial Services Agency of Japan. An overview of the applicant’s planned and implemented financial and credit risk management strategies are disclosed in its annual report which is posted on the applicant’s website. The information provided also demonstrates that the applicant has the capacity and systems in place to channel funds transparently and effectively, and, if accredited, to transfer the GCF funding advantages to final beneficiaries.

32. Based on the evidence documents provided, the applicant has also demonstrated sound financial risk and asset and liability management policies, procedures and governance and organizational structures that ensure the appropriate segregation of duties of the treasury function and operations.

33. The applicant has been rated by Standard & Poor’s Rating Services as A+ (stable).

34. While the applicant meets all other GCF requirements relating to blending operations, it does not have the required policy in place for providing information to the public regarding its decisions on blending operations, or a policy requiring periodic audits of the use of funds that would be provided by the GCF. However, the applicant is in the process of developing the required policies to fully meet the GCF requirements for this standard for blending operations.

## 3.2 Environmental and social safeguards

### 3.2.1 Section 6.1: Policy

35. The applicant’s environmental and social (E&S) guidelines published in 2010 constitute its E&S policy which articulates overarching E&S objectives and principles guiding the institution. The E&S guidelines state that the E&S standards the institution adheres to, including laws implementing host country obligations under international law. The E&S guidelines are endorsed by the applicant’s senior management and indicate the specific units within the institutions responsible for ensuring conformance with the policy execution and are communicated to all levels of its organization as well as publicly. The applicant’s policy requires its executing entities in implementing projects financed by the applicant to address cumulative impacts, the analysis of alternatives, baseline data standards and mitigation hierarchy. The applicant, being an active member of the Multilateral Development Bank’s Environmental Group, has as part of harmonizing E&S procedures across multilateral development banks, have kept abreast of international norms and practices on the environmental assessment and reflected them in its own environmental and social management system.

### 3.2.2 Section 6.2: Identification of risks and impacts

36. The applicant’s E&S guidelines referred to in paragraph 35 above also describe its E&S risks and impact the identification and assessment procedure. The operational department (e.g. regional department, sectorial department and the representative office in the applicant’s partner country), and credit risk analysis and environmental review departments also participate in the environmental and social considerations of applicant’s lending operations. The operational department has the primary responsibility for categorization, confirmation of the adequacy of environmental and social considerations, and monitoring for individual projects. The environmental and social consideration review division of the credit risk analysis and environmental review department checks compliance with the applicant’s E&S guidelines.

In addition, when a project is categorized as Category A/Intermediation 1 (i.e. a potentially high E&S impact project), the environmental division staff, including Safeguard Specialists conduct an environmental and social review of the project by performing an on-site inspection and report to the applicant's E&S advisory committee and the committee gives advice as needed. The applicant also provided a list of projects from the past three years and their E&S risk categories.

37. The applicant has provided a checklist that addresses how each of the performance standards 1 to 8 of the GCF interim environmental and social safeguards is assessed. The applicant has provided sample project documents as evidence of its track record with E&S risks and impacts identification and assessment procedure in line with the performance standards. The applicant has also provided a sample external audit report which indicates that the applicant's internal control system is in compliance with its E&S policy and procedure.

#### 3.2.3 **Section 6.3: Management programme**

38. The applicant's procedure for environmental and social considerations provides documented institutional processes for managing E&S risks and impacts mitigation measures and actions stemming from the E&S risk identification process. The applicant has provided sample project documents as evidence of the effectiveness of the implementation of its procedures. The applicant has provided a brief write up on its practices relating to the audit of its overall operations. Additionally, the applicant provided a sample of external audit reports as evidence of the effectiveness of its institutional management programme for mitigation actions.

#### 3.2.4 **Section 6.4: Organizational capacity and competency**

39. The applicant has provided its organization chart, including the roles, responsibilities, reporting lines and authority to implement the environmental and social management system, which includes its senior management. The technical staff with the direct responsibility for the project or programme performance have the knowledge, skills and experience necessary to understand and ensure the implementation of performance standards 1 to 8. The applicant has provided information on its technical staff E&S training as well as a sample of work of their work as evidence of their knowledge of performance standards 1 to 8.

#### 3.2.5 **Section 6.5: Monitoring and review**

40. The applicant's E&S procedure describes its internal processes to support a monitoring and supervision programme that tracks and ensures the completion of mitigation and performance improvement measures. The internal process defines the roles and responsibilities and timelines to monitor and supervise a project in a separate document on procedures for review supervision. Project monitoring results on the effectiveness of the applicant's implementation of its environmental and social management system are reported every six months to the applicant's advisory committee for environmental and social considerations. The applicant has provided evidence of its senior management's participation and guidance to ensure that the intent of the institutions policy is met and that procedures, practices and plans are implemented appropriately.

#### 3.2.6 **Section 6.6: External communications**

41. The applicant provided its external communications procedure which includes a website for receiving external comments and complaints on the project's environmental and social aspects. The applicant also provided a link to its complaints register on complaints received and how they were addressed and resolved. Its procedure for public disclosure and consultation with project stakeholders of E&S project documents, including a grievance mechanism at the level of the applicant's own institution as well as at the level of its executing entities, are in line with the GCF Information disclosure policy.

### 3.3 Gender

42. The applicant's mission statement published in 2008 reflects its vision on gender equality and women empowerment. The applicant's vision for gender mainstreaming is articulated in its policy, organization structure and operational procedure. The operational procedure published in 2009 describe a step-by-step process in terms of project screening from a gender perspective at the appraisal stage, followed by the relevant department integrating a gender perspective into projects and an implemented project is subsequently monitored and evaluated by relevant departments in consultation with the unit for gender equality and poverty reduction. The applicant has designated a vice-president in charge of gender supported by a gender-dedicated unit for gender equality and poverty reduction.

43. The applicant has provided sample project documents which contain specific reference to women and men who have benefitted from climate change projects. The applicant has also provided sample standard bidding documents reflecting non-discrimination and equal opportunity clauses as evidence of the applicant's requirements of its executing entities' non-discriminatory practice. The applicant's gender policy, procedures and competency are in line with the GCF Gender policy and Gender action plan.

## IV. Conclusions and recommendation

### 4.1 Conclusions

44. Following its assessment, the AP concludes the following in relation to the application:
- (a) The applicant meets the requirements of the GCF basic fiduciary standards and specialized fiduciary standard for project management, but partially meets the requirements of the GCF specialized fiduciary standard for grant award and/or funding allocation mechanisms and specialized fiduciary standard for blending;
  - (b) The applicant meets the requirements of the interim environmental and social safeguards of the GCF in relation to the high E&S risk (Category A/I-1); and
  - (c) The applicant has demonstrated that it has competencies, policies and procedures in order to implement its gender policy, which is found to be consistent with the Gender policy of the GCF, and has demonstrated that it has experience with gender considerations in the context of climate change.

### 4.2 Recommendation on accreditation

45. The AP recommends, for consideration by the Board, applicant APL055 for accreditation as follows:

- (a) **Accreditation type:**
  - (i) **Maximum size of an individual project or activity within a programme:** large (including micro,<sup>4</sup> small<sup>5</sup> and medium<sup>6</sup>);
  - (ii) **Fiduciary functions:**

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<sup>4</sup> As per annex I to decision B.08/02, "micro" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of up to and including USD 10 million for an individual project or an activity within a programme".

<sup>5</sup> As per annex I to decision B.08/02, "small" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 10 million and up to and including USD 50 million for an individual project or an activity within a programme".

<sup>6</sup> As per annex I to decision B.08/02, "medium" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 50 million and up to and including USD 250 million for an individual project or an activity within a programme".

1. Basic fiduciary standards;
  2. Specialized fiduciary standard for project management;
  3. Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and
  4. Specialized fiduciary standard for on-lending and/or blending (for blending only); and
- (iii) **Maximum environmental and social risk category:** high risk (Category A/I-1) (including lower risk (Category B/I-2<sup>7</sup> and Category C/I-3<sup>8</sup>)); and
- (b) **Conditions:** the applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition(s). The AP will thereafter assess whether the condition(s) has/have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes:
- (i) Conditions to be met prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
    1. Develop a system for providing public access to information on the periodic progress of all GCF-funded activities;
    2. Develop a policy of periodic independent reviews/external audits of all grant award programmes funded by the GCF; and
    3. Develop policies/guidelines for providing information to the public regarding all decisions on blending operations funded by the GCF; and
  - (ii) Condition to be met within one year of the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
    1. Provide evidence of the implementation of the items identified in paragraph 45(b)(i) above.
46. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 45 above, and agrees to the recommendation.

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<sup>7</sup> As per annex I to decision B.07/02, Category B is defined as “Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures” and Intermediation 2 is defined as “When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented”.

<sup>8</sup> As per annex I to decision B.07/02, Category C is defined as “Activities with minimal or no adverse environmental and/or social risks and/or impacts” and Intermediation 3 is defined as “When an intermediary’s existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts”.

## Annex XVII: Summary of recommendations

1. A summary of recommendations by the Accreditation Panel (AP) for entities to be considered by the Board for accreditation is presented in the table below.
2. For all conditions of accreditation proposed, the entity will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition(s). The AP will thereafter assess whether the condition(s) has/have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes.

**Table 7: Summary of recommended accreditation types and conditions**

Applicant number	Access modality	Accreditation type being recommended under the fit-for-purpose approach			Accreditation conditions
		Size <sup>1</sup>	Fiduciary functions <sup>2</sup>	Environmental and social risk category	
<b>APL050 CDG Capital</b>	Direct access, national, private sector	Medium	Basic fiduciary standards; and Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees)	Medium risk (I-2) <sup>3</sup>	<p><u>Condition to be met by the applicant prior to submitting the first funding proposal to the GCF wherein the applicant would be providing GCF resources through a financial intermediary:</u></p> <ol style="list-style-type: none"> <li>1. Submit a description of the approach the applicant will undertake to assess the financial intermediary as the executing entity.</li> </ol> <p><u>Conditions to be met for each funding proposal:</u></p> <ol style="list-style-type: none"> <li>1. Provide in its funding proposal an E&amp;S management framework that describes the applicant's project-specific</li> </ol>

<sup>1</sup> "Size" refers to the total projected costs at the time of application, irrespective of the portion that is funded by the GCF, for an individual project or an activity within a programme. Four size categories (micro, small, medium and large) are defined in annex I to decision B.08/02 (annex I to document GCF/B.08/45).

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), category B is defined as "Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures" and intermediation 2 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented".

Applicant number	Access modality	Accreditation type being recommended under the fit-for-purpose approach			Accreditation conditions
		Size <sup>1</sup>	Fiduciary functions <sup>2</sup>	Environmental and social risk category	
					<p>approach to E&amp;S risk and impact categorization, mitigation and management, E&amp;S monitoring and reporting; and</p> <p>2. Provide in its funding proposal a gender action plan that reflects the applicant's adequate competency in terms of human and financial resources and a system for maintaining data that addresses gender aspects in line with the GCF Gender policy.</p> <p><u>Condition to be met prior to the first disbursement by the GCF for the first approved GCF project/programme to be undertaken by the applicant:</u></p> <p>1. Provide, on the applicant's website, a description of the arrangements and procedure for managing complaints before, during and after the investigation process.</p> <p><u>Condition to be met on an annual basis for three consecutive years starting with the end of the first year of the implementation of the first GCF-funded project/programme:</u></p> <p>1. Provide the evidence that the reports on beneficiaries and results during implementation of all GCF-funded activities were prepared and published in accordance with the applicant's procedures for public access to information.</p>
<b>APL051 IDCOL</b>	Direct access, national	Medium	Basic fiduciary standards; Specialized fiduciary standard for project management; and	Medium risk (Category B/I-2)	<u>Conditions to be met prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:</u>

Applicant number	Access modality	Accreditation type being recommended under the fit-for-purpose approach			Accreditation conditions
		Size <sup>1</sup>	Fiduciary functions <sup>2</sup>	Environmental and social risk category	
			Specialized fiduciary standard for on-lending and/or blending (for loans)		<p>1. Provide evidence of the establishment and introduction of the policies and processes listed below:</p> <ul style="list-style-type: none"> <li>a. Establish a process to monitor and assess the overall effectiveness of the internal audit function, including its procurement activities;</li> <li>b. Adopt a code of conduct, approved by the applicant's board;</li> <li>c. Adopt a project closure policy, approved by the applicant's board;</li> <li>d. Adopt a policy on the public disclosure of project monitoring and evaluation reports, and project results, approved by the applicant's board; and</li> <li>e. Adopt a policy on the public disclosure of information regarding the applicant's decisions on on-lending and/or blending operations, approved by the applicant's board.</li> </ul> <p><u>Conditions to be met within one year of the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:</u></p> <p>1. Provide a copy of a procurement oversight/audit report; and</p>

Applicant number	Access modality	Accreditation type being recommended under the fit-for-purpose approach			Accreditation conditions
		Size <sup>1</sup>	Fiduciary functions <sup>2</sup>	Environmental and social risk category	
					2. Provide evidence of monitoring of the observations contained in procurement oversight/audit reports and appropriate management response and actions.
<b>APL052 SIDBI</b>	Direct access, national	Large	Basic fiduciary standards; Specialized fiduciary standard for project management; Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees)	Medium risk (Category B/I-2)	<p><u>Conditions associated with the GCF fiduciary standards, to be met prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:</u></p> <ol style="list-style-type: none"> <li>1. Develop a policy for the public disclosure of information regarding projects, including grant award programmes and on-lending/blending operations, to be undertaken with GCF funds. This policy must include, at the minimum, the following: <ol style="list-style-type: none"> <li>a. Guidelines for the publication of independent project evaluation reports;</li> <li>b. Guidelines for the public disclosure of information on beneficiaries of grant awards and/or loans disbursed, purpose of the grants and/or loans and amounts disbursed; and</li> <li>c. Identification of the media/channels through which the information will be disclosed, as well as the timeline for disclosure;</li> </ol> </li> <li>2. Establish an independent project evaluation policy and capacity;</li> </ol>

Applicant number	Access modality	Accreditation type being recommended under the fit-for-purpose approach			Accreditation conditions
		Size <sup>1</sup>	Fiduciary functions <sup>2</sup>	Environmental and social risk category	
					<p>3. Develop, for GCF-funded grant award programmes to be implemented through executing entities, the policies and guidelines to be followed by the executing entity; and</p> <p>4. Develop the operating procedures the applicant will follow to ensure the executing entity's compliance with the policies and guidelines for the grant award programme mentioned in the previous paragraph.</p> <p><u>Condition associated with the ESS and gender policy, to be met prior to submitting the first funding proposal to the GCF for consideration:</u></p> <p>1. Submit to the AP for its review a copy of the new entity-wide ESMF (2017 version) and the revised policies, procedures and organization chart highlighting the integration of the 2017 ESMF into the entity.s</p>
<b>APL053 MCT</b>	Direct access, regional	Micro	Basic fiduciary standards; Specialized fiduciary standard for project management; and Specialized fiduciary standard for grant award and/or funding allocation mechanisms	Minimal to no risk (Category C/I-3) <sup>4</sup>	<p><u>Condition to be met for each funding proposal:</u></p> <p>1. Provide in its funding proposal a gender action plan that reflects the applicant's adequate competency in terms of human and financial resources and a system for maintaining data that addresses gender aspects in line with the GCF Gender policy.</p>

<sup>4</sup> As per annex I to decision B.07/02, category C is defined as "Activities with minimal or no adverse environmental and/or social risks and/or impacts" and intermediation 3 is defined as "When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts".

Applicant number	Access modality	Accreditation type being recommended under the fit-for-purpose approach			Accreditation conditions
		Size <sup>1</sup>	Fiduciary functions <sup>2</sup>	Environmental and social risk category	
					<p><u>Conditions to be met prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:</u></p> <ol style="list-style-type: none"> <li>1. Provide an investigation procedure containing the description of the investigation process and corresponding follow-up actions to be taken;</li> <li>2. Provide anti-money laundering and countering the financing of terrorism policies that are fully in line with the GCF interim policy on prohibited practices;</li> <li>3. Provide an approved policy for the public disclosure of the decisions on grants awarded under a grant award programme;</li> <li>4. Provide evidence of the adoption of the applicant's procedures for the mitigation, management and monitoring of the E&amp;S risks and impacts, including those that are unanticipated, of its programmes; and</li> <li>5. Provide evidence of the establishment of an external communication channel, which may include a website to receive, register and respond to E&amp;S complaints.</li> </ol> <p><u>Condition to be met within one year of the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:</u></p> <ol style="list-style-type: none"> <li>1. Provide evidence of the implementation of the policies and procedures referred to in paragraph 37(b)(ii)(3) of annex VIII of this document, in regard to the public</li> </ol>

Applicant number	Access modality	Accreditation type being recommended under the fit-for-purpose approach			Accreditation conditions
		Size <sup>1</sup>	Fiduciary functions <sup>2</sup>	Environmental and social risk category	
					disclosure of the results of the grants awarded under a grant award mechanism, under the projects/programmes approved and funded by the GCF.
<b>APL054 BTMU</b>	International access, private sector	Large	Basic fiduciary standards; Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees)	High risk (I-1) <sup>5</sup>	<p><u>Condition to be met prior to signature of the accreditation master agreement for completion of Stage III of the accreditation process:</u></p> <p>1. Provide a report on an independent assessment of the effectiveness of the applicant's measures and actions for improving its AML and sanctions compliance programmes.</p> <p><u>Conditions to be met prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:</u></p> <p>1. Provide evidence to show that the applicant:</p> <ol style="list-style-type: none"> <li>Carries out checks and audits of the payment and disbursement of funds under projects financed by the applicant;</li> <li>Has a publicly accessible and transparent procurement dispute resolution process;</li> <li>Has an appropriate mechanism with clear terms of reference for continuous oversight of the ethics function;</li> </ol>

<sup>5</sup> As per annex I to decision B.07/02, category A is defined as "Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented" and intermediation 1 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented".

Applicant number	Access modality	Accreditation type being recommended under the fit-for-purpose approach			Accreditation conditions
		Size <sup>1</sup>	Fiduciary functions <sup>2</sup>	Environmental and social risk category	
					<p>d. Has procedures for overseeing procurement activities of executing entities under GCF-funded activities;</p> <p>e. Has a policy requiring the public disclosure of procurement policies and procedures, and procurement contract awards under GCF-funded activities;</p> <p>f. Has a policy and guidelines on the public disclosure of information regarding the applicant's decisions on on-lending and/or blending operations in respect of activities that would be funded by the GCF; and</p> <p>g. Has adopted a gender policy in line with the GCF Gender policy.</p> <p><u>Condition to be met within one year of the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:</u></p> <p>1. Provide evidence of the implementation of the items identified in paragraph 46(b)(ii) contained in annex IX of this document.</p>

Applicant number	Access modality	Accreditation type being recommended under the fit-for-purpose approach			Accreditation conditions
		Size <sup>1</sup>	Fiduciary functions <sup>2</sup>	Environmental and social risk category	
APL055 JICA	International access	Large	Basic fiduciary standards; Specialized fiduciary standard for project management; Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and Specialized fiduciary standard for on-lending and/or blending (for blending only)	High risk (Category A/I-1)	<p><u>Conditions to be met prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:</u></p> <ol style="list-style-type: none"> <li>1. Develop a system for providing public access to information on the periodic progress of all GCF-funded activities;</li> <li>2. Develop a policy of periodic independent reviews/external audits of all grant award programmes funded by the GCF; and</li> <li>3. Develop policies/guidelines for providing information to the public regarding all decisions on blending operations funded by the GCF.</li> </ol> <p><u>Condition to be met within one year of the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:</u></p> <ol style="list-style-type: none"> <li>1. Provide evidence of the implementation of the items identified in paragraph 45(b)(i) of annex X to this document.</li> </ol>

## **Annex XVIII: Additional entities of other relevant funds for fast-track accreditation eligibility**

### **I. Background**

1. In decision B.08/03, paragraphs (e–g), the Board decided that entities accredited by the Global Environment Facility (GEF), the Adaptation Fund (AF) and the Directorate-General for International Development and Cooperation (DG DEVCO) up to and including 17 October 2014 and in full compliance with those institutions' requirements, as contained in annex V to decision B.08/03 (annex V to document B.08/45), are eligible to apply under the fast-track accreditation process for the accreditation requirements of the GCF identified in the relevant paragraphs of the decision.
2. In decisions B.10/06, B.12/30, B.14/09 and B.15/09 the Board expanded the list of entities eligible to apply under the same fast-track approach, assuming all prerequisite criteria were met to include those under the GEF, the AF and DG DEVCO up to and including 9 July 2015, 9 March 2016, 14 October 2016 and 17 December 2016, respectively.
3. The entity presented below has been accredited by DG DEVCO since 17 December 2016. No new entities have been accredited by the AF or the GEF since that time.

### **II. Directorate-General for International Development and Cooperation**

**Table 8: Directorate-General for International Development and Cooperation**

<b>Name</b>	<b>Acronym</b>
Center for International Forestry Research	CIFOR

4. The international organizations listed in table 8 have been confirmed either by DG DEVCO to the Secretariat or via evidence provided by the organizations regarding their successful assessment against DG DEVCO pillar assessments, meet the requirements of the relevant European Union legislation and are authorized to carry out European Union budget implementation tasks without conditions concerning their institutional compliance.

**Annex XIX: Accreditation Master Agreement between the Green  
Climate Fund and Conservation International Foundation  
(marked to show changes from the template AMA)**

*This annex was distributed to the Board on a limited distribution basis.*

## **Annex XX: Guidelines for enhanced country ownership and country drivenness**

### **I. Introduction**

1. In decision B.10/10, the Board recognized the importance of enhancing country ownership, country drivenness and the role that national designated authorities (NDAs)/focal points (FPs) can play in this regard. The Board also affirmed that all efforts should be undertaken to: (1) strengthen the key role of NDAs/FPs in the formulation of country programmes/project pipelines, the consideration of implementation partners, and financial planning, and enhance capacity, including through the programme and readiness support; (2) also strengthen the role of NDAs/FPs in monitoring and providing feedback regarding the impact of Fund operations within countries in terms of the degree to which the Fund's initiatives add value to national development priorities, building institutional capacity, and promoting a paradigm shift towards low carbon and climate resilient development; and (3) promote a central and leading role of NDAs/FPs in the coordination of the Fund's engagements within countries while highlighting the importance of the different roles between the Secretariat, Accredited Entities and NDAs/FPs in relation to country programming.

2. In this regard, the Board requested the Secretariat to prepare a proposal of guidelines, drawing upon learning experiences and best practices across NDAs/FPs, for consideration by the Board. The Fund will consider country ownership as the measure through which countries, through meaningful engagement, including consultation with relevant national, local, community-level, and private sector stakeholders, can demonstrate ownership of, and commitment to, efforts to mitigate and adapt to climate change. The Fund will continue to strengthen the [principle of country ownership] and continuously reflect it in its policies and activities.

### **II. Guiding Principles**

3. The principle of country ownership is reflected in the Governing Instrument and various Board decisions. The Governing Instrument for the Green Climate Fund provides that "The Fund will pursue a country driven approach and promote and strengthen engagement at the country level through effective involvement of relevant institutions and stakeholders." Decision B.04/05 reaffirms that country ownership and a country driven approach are the core principles of the Fund, and establishes the functions of the NDAs/FPs. Decisions B.07/03, annex VII and B.08/10, annex XII establish the role of the NDA or focal point in the initial approval process, including the no-objection procedure. Decisions B.08/10, Annex XIII also provides initial best-practice guidelines for the selection and establishment of national designated authorities and focal points, while Annex XIV provides initial best-practice options for country coordination and multi-stakeholder engagement, Decision GCF/B.08/11, Annex XVII also provides initial general guidelines for country programmes to enable country ownership through NDA leadership of the process. Further, Decision B.11/10 further elaborates on the role of the NDA or focal point of a country to lead an annual participatory review of the GCF portfolio in their countries with the participation of all relevant stakeholders.

4. While this document does not attempt to provide a further definition of the concept of country ownership, submissions from Board/Alternate members highlighted the following components as being important:

- (i) The need for the guidelines to remain flexible and not be too prescriptive – recognising the wide range of different country contexts;
- (ii) The need to recognise that country ownership is an ongoing and evolving process;

- (iii) The respective roles of NDAs/FPs, Accredited Entities (AEs) and the Secretariat in ensuring country ownership in the development and implementation of projects and programmes;
- (iv) The importance of NDAs/FPs having sufficient capacity and capability to adequately perform their functions, as outlined in decision B.04/05 and B.08/10 Annex XIII;
- (v) The potential for the development of country programmes to contribute to the strengthening of country ownership;
- (vi) The need for country ownership to continue throughout the project cycle, from readiness activities, and the pre-concept stage, through implementation to monitoring and evaluation of a project or programme; and
- (vii) The importance of ensuring effective engagement of and ownership by relevant national and sub-national stakeholders such as the local governments at the municipal or village-level, private sector, local communities, academia and civil society organizations, including indigenous peoples and women's organizations, throughout the project cycle, in line with the initial best-practice options for country coordination and multi-stakeholder engagement outlined in decision B.08/10 Annex XIV and decision B.10/10.

### **III. Building Country Ownership through Country Programmes and Structured Dialogues**

5. NDAs/FPs should play a key role in the formulation of country programmes and proposal pipelines, as well as in the consideration of implementation partners, and financial planning. The development of country programmes, identifying national priorities for investment in climate change related activities, can be a key component of ensuring country ownership. Country programmes should take into account existing plans, strategies, laws and policy frameworks at national and international level. The process of developing a country programme should take into account the country's (I)NDC, national communications, as well as NAMAs, NAPAs, NAPs and/or other adaptation planning processes where applicable, as well as regional, national, sub-national and local climate policy frameworks, ensuring GCF climate finance is consistent with national priorities. Country programmes should be developed taking into account the best practice principles for multi-stakeholder engagement<sup>1</sup>.

6. Country programmes should capture the diversity of activities and processes taking place at national level and how they support each other by:

- (a) Linking individual funding proposals to national sustainable development plans, INDCs/NDCs and other existing national strategies and plans, including NAMAs, NAPAs, NAPs and other adaptation planning processes, as appropriate;
- (b) Supporting long-term planning through the identification of financing needs, [potential for climate change investment,] and relevant implementing entities;
- (c) Acting as the framework for capacity-building at country level, consolidating all interactions in terms of Readiness, project preparation facility (PPF) and funding proposals; and
- (d) Supporting direct access and fostering collaboration between international entities and local institutions, as appropriate.

7. NDAs/FPs will play a central and leading role in coordination of the Fund's engagement within their countries while highlighting the importance of the different roles between the Secretariat, Accredited Entities, and NDAs/FPs.

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<sup>1</sup> Decision B.08/10 Annex XIV

Structured dialogues will follow the principles of country ownership, including alignment with national strategies, identifying the capacity of Accredited Entities, and ensuring that multi-stakeholder groups participate in and benefit from the outcomes of the dialogues. As described in the GCF's Strategic Plan, Structured Dialogues at national and regional level facilitated or supported by the Fund will be seized as opportunities to further expand on the ideas expressed in para (2) above, as well as to share lessons and experience to strengthen the pipeline development processes. Structured Dialogues offer an opportunity for the Secretariat, NDAs/FPs, relevant AEs and other stakeholders, including the private sector and civil society, to develop country programmes and determine which priorities identified by country strategies (INDCs, LEDS, NAPAs, NAMAs etc.) are the best match for GCF support. The structured dialogue will aim to help NDAs/FPs to identify the best AE and other partners to design programming that meets the investment criteria of the GCF as well as country needs. As highlighted in the GCF's Strategic Plan, AEs are encouraged to actively participate in these structured dialogues in order to prepare their future annual or multi-annual work programmes which they have been requested to submit to the Secretariat.

#### **IV. Reflecting Country Ownership in the Fund's Operational Modalities**

8. The principle of country ownership will be considered in the context of all GCF operational modalities and relevant related policies including the Readiness and Preparatory Support Programme and the Project Preparation Facility, the Proposal Approval process, including the simplified approval process, as well as the Accreditation process, recognising that country ownership is a continual process. NDAs/FPs have a key role in these processes in a way which builds national and institutional capacity and facilitates engagement with relevant stakeholders.

9. Readiness and preparatory support is a key instrument for enhancing country ownership. Countries are encouraged to access the GCF's Readiness and Preparatory Support Programme for a range of activities through which country ownership can be strengthened, including the preparation of country programmes; building in-country institutional capacities including for country coordination and multi-stakeholder consultation mechanisms; developing the capacities of potential regional, national and subnational implementing entities, and intermediaries; and building the capacity of NDAs/FPs to perform their role in coordinating and overseeing GCF activity in their respective countries<sup>2</sup>.

10. When considering accreditation to the GCF, NDAs/FPs should consider the nomination of Direct Access Entities and/or partnerships with International Entities, in a manner that can cover the various needs and priorities of their countries. NDAs/FPs may also request readiness support to identify and prioritize national priorities, in coordination with Accredited Entities, and in consultation with other stakeholders. They may also request readiness support for applicant institutions, including Direct Access Entities, to address identified gaps to enable them to meet the GCF standards and to build their capacity to engage with the GCF<sup>3</sup>.

11. Once accredited, close collaboration between the Accredited Entities and the NDAs/FPs is essential. Accredited Entities must engage at the earliest possible stage with the NDAs/FPs on their identified priorities, making links to policy frameworks and plans, and engaging closely with the NDAs/FPs on how to make use of local capacities, including knowledge, expertise and institutions in the preparation and subsequent implementation of projects/programmes.

12. Successful collaboration between NDAs/FPs and Accredited Entities in developing funding proposals is key to embedding country ownership. Ideas for projects or programmes

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<sup>2</sup> Decision B.05/14 and decision B.08/11

<sup>3</sup> Decision B.13/32 Annex VII

can originate with NDAs/FPs or with Accredited Entities, and may also come from other sources. When an idea originates with an NDAs/FPs, either through the development of a GCF Country Programme or through other planning, the NDA/FP may invite AEs to develop ideas into GCF concept notes and/or proposals to submit to the Secretariat for consideration. When an idea originates with an Accredited Entity (or an organisation looking to become an AE), the entity must engage as early as possible with the NDAs/FPs on the potential project or programme. This should be done at the concept note stage where appropriate (noting that concept notes are voluntarily submitted to the GCF). In all cases, the AE and the NDA/FP should work together early enough to allow sufficient time for appropriate multi-stakeholder engagement to take place, in particular with affected communities and potential beneficiaries. In providing feedback to Accredited Entities on concept notes, or on the consideration of funding proposals, the GCF Secretariat and the Accredited Entity must ensure that NDAs/FPs are kept informed on the development and progress of the concept note or funding proposal.

13. The no-objection procedure, by which funding proposals should not be submitted to the GCF without a letter confirming that the recipient country does not have an objection to the proposed project or programme, is designed to ensure consistency with national climate strategies and plans and country-driven approaches<sup>4</sup>. Although a no-objection letter is not required for the voluntary submission of a concept note, Accredited Entities, when submitting a concept note, are encouraged to include a description of how engagement with the NDA(s) and other relevant stakeholders in the country has taken place and what further engagement will be undertaken as the concept is developed into a funding proposal. NDAs/FPs should be notified by the AE when a concept note is presented for their respective country, and the Secretariat should confirm with the respective NDA/FP this notification has taken place. Stakeholder engagement and coordination at the national level, notably between line ministries, is critical for the effective preparation of funding proposals, as well as ongoing monitoring and evaluation after approval. Developing countries are urged to take into account the best-practice guidelines for the establishment of national designated authorities and focal points and the best-practice options for country coordination and multi-stakeholder engagement as set out in decision B.08/10 Annex XIII and Annex XIV. NDAs/FPs are encouraged to establish national coordination mechanisms and formal consultation processes. They can access the Readiness and Preparatory Support Programme to support this effort.<sup>5</sup>

14. A consultative process should aim to be an ongoing process through the design, implementation, monitoring and evaluation and exit stages of a project or programme, rather than a discrete activity occurring only once. This will allow the possibility of follow up, continuous update and regular assessment of progress. These consultative processes should be inclusive and seek to engage all relevant actors within the government, the private sector, academia, civil society and other relevant stakeholder groups or sectors<sup>6</sup>. Establishing such ongoing stakeholder engagement and country coordination should help to ensure the coherence of GCF funded activities with national priorities and existing strategies and plans. Where countries have existing multi-stakeholder processes, they may be used for the GCF and strengthened via the Readiness and Preparatory Support Programme.

15. Acknowledging the importance of thorough consultation processes in supporting country ownership, the GCF will develop a stakeholder engagement policy and standards as part of its Environmental and Social Management System that will foster early engagement between the Secretariat, AEs, NDAs/FPs, and other stakeholders including during the proposal design stage.

16. Country ownership of GCF activities may also be evident if countries take action to demonstrate sustained commitment to and ownership of GCF funding proposals from approval

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<sup>4</sup> Decision B.08/10 Annex XIII

<sup>5</sup> Decision B.08/11 (i)

<sup>6</sup> Decision B.08/10 Annex XIV

through implementation and beyond. Such actions could include but are not limited to commitments to improve enabling environments to help a proposal succeed or assurances of financial or in-kind support. Additionally, evidence of country ownership of GCF funding proposals could also include commitments to improve sustainability of actions once GCF funding is used, for example, thorough plans to train and employ local staff during project or programme implementation as compared to relying on international consultants.

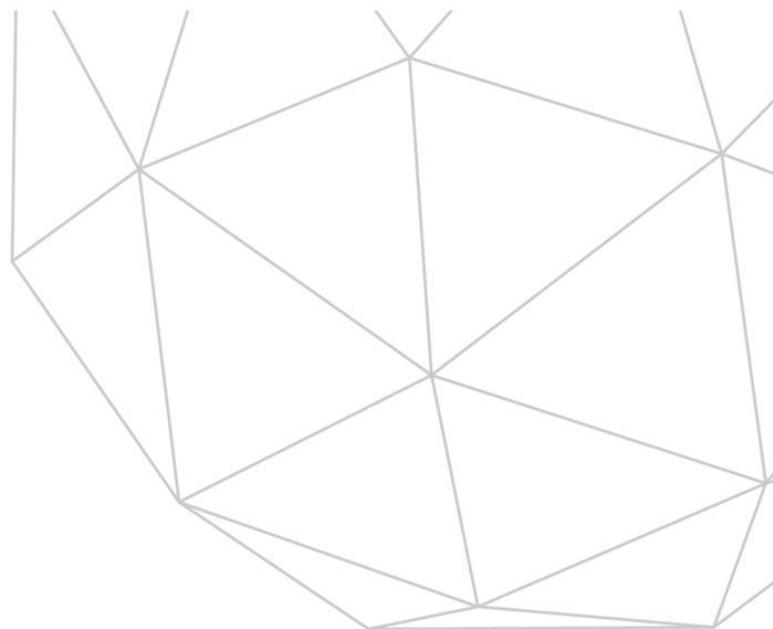
## **V. Evaluating and developing Country Ownership**

17. Recognising that country ownership is an underlying principle and an ongoing process, and that country ownership may mean different things in different country contexts, quantitative measurement alone of country ownership is unlikely to provide meaningful results. The Fund should make efforts to draw lessons from how country ownership is being interpreted and implemented in different contexts, and to use such lessons to inform the development of policies and programmes, stakeholder engagement, and country programmes.

18. This could be done through engagement with NDAs/FPs, other key stakeholders in recipient countries, and with Accredited Entities. Consultation with NDAs/FPs should form an integral part of the mid-term and completion evaluations required for each approved funding proposal. The outcomes of the annual participatory review of the GCF Portfolio in the country, facilitated by the NDA/FP, could also be considered. In addition, the Structured Dialogues at national and regional level could also gather relevant feedback from NDAs/FPs and other stakeholders on their experience of country ownership. The fund could also draw lessons from how ownership is being achieved through different GCF access modalities, including the enhanced direct access pilot.

19. The Secretariat will continue to improve these guidelines based on observations from current best practices and from feedback gathered through the processes outlined above.

**Annex XXI**



# Green Climate Fund Report on Audits of Financial Statements

for the years ended December 31, 2016 and 2015

Prepared under International Financial Reporting Standards



## CONTENTS

	Page No.
Independent Auditor's Report	3
Statement of Financial Position	5
Statement of Comprehensive Income	6
Statement of Changes in Funds	7
Statement of Cash Flows	8
Notes to the Financial Statements	9



## INDEPENDENT AUDITOR'S REPORT

To the Board of the Green Climate Fund

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### **Report for the financial statements**

We have audited the accompanying financial statements of the Green Climate Fund (“the Fund”), which comprise the statement of financial position as at December 31, 2016 and 2015, and the statement of comprehensive income, changes in funds and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Board's and Secretariat's responsibility for the financial statements**

The Board and Secretariat are responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards (IFRS). This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board and the Secretariat are further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

#### **Certified Public Accountants and Management Consultants**

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at December 31, 2016 and 2015, and its financial performance and cash flows for the years then ended in accordance with the International Financial Reporting Standards.

July xx, 2017

Seoul, Korea

This report is effective as of July xx, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

## STATEMENT OF FINANCIAL POSITION

As of December 31, 2016 and 2015

(In '000 USD)	Note	2016	2015
<b>Assets</b>			
Cash and cash equivalents	5, 6	1,824,159	637,682
Contributions receivable	6,7	470,102	470,538
Prepayments	-	279	-
<b>Total current assets</b>		<b>2,294,540</b>	<b>1,108,220</b>
Contributions receivable	6,7	1,099,891	740,115
Investment in equity	6,8	5,494	-
Property and equipment, net	9	1,123	785
<b>Total non-current assets</b>		<b>1,106,508</b>	<b>740,900</b>
<b>Total assets</b>		<b>3,401,048</b>	<b>1,849,120</b>
<b>Liabilities</b>			
Accounts payable	6	1,986	1,651
Payable to employees	5,6	2,496	1,436
Other payables	-	141	-
Accrued expenses	-	2,736	1,087
<b>Total current liabilities</b>		<b>7,359</b>	<b>4,174</b>
<b>Total liabilities</b>		<b>7,359</b>	<b>4,174</b>
<b>Funds</b>			
Temporarily restricted funds	10	1,925,435	1,210,653
Unrestricted funds	10	1,468,254	634,293
<b>Total Funds</b>		<b>3,393,689</b>	<b>1,844,946</b>
<b>Total liabilities and funds</b>		<b>3,401,048</b>	<b>1,849,120</b>

See accompanying notes to the financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2016 and 2015

(In '000 USD)	Note	2016	2015
<b>Income</b>			
Income from contributors	11	1,565,948	1,754,840
Investment & other income	12	13,776	2,470
<b>Total income</b>		<b>1,579,724</b>	<b>1,757,310</b>
<b>Expenditure</b>			
Operating expenses for secretariat office	14	25,379	18,731
Programme	15	5,602	1,412
<b>Total expenditure</b>		<b>30,981</b>	<b>20,143</b>
<b>Increase in fund for the year</b>		<b>1,548,743</b>	<b>1,737,167</b>
<b>Other Comprehensive Income (loss)</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>1,548,743</b>	<b>1,737,167</b>

See accompanying notes to the financial statements

## STATEMENT OF CHANGES IN FUNDS

For the years ended December 31, 2016 and 2015

(In '000 USD)

	Temporarily restricted funds	Unrestricted funds	Total
<b>As at 1 January 2015</b>	<b>681</b>	<b>107,098</b>	<b>107,779</b>
Fund released from restriction	(681)	681	-
Comprehensive income	1,210,653	526,514	1,737,167
<b>As at 31 December 2015</b>	<b>1,210,653</b>	<b>634,293</b>	<b>1,844,946</b>
<b>As at 1 January 2016</b>	<b>1,210,653</b>	<b>634,293</b>	<b>1,844,946</b>
Fund released from restriction	(274,216)	274,216	-
Comprehensive income	988,998	559,745	1,548,743
<b>As at 31 December 2016</b>	<b>1,925,435</b>	<b>1,468,254</b>	<b>3,393,689</b>

See accompanying notes to the financial statements.

## STATEMENT OF CASH FLOWS

For the years ended December 31, 2016 and 2015

(In '000 USD)	2016	2015
<b>Cash flows from operating activities</b>		
Cash receipts from contributors	1,199,201	541,870
Bank and trust fund income	13,157	578
Other income	619	1,424
Cash paid to suppliers & personnel	(24,317)	(15,944)
Cash paid for grants	(3,230)	(328)
Realised foreign currency gain	7,400	2,789
<b>Net cash provided by (used in) operating activities</b>	<b>1,192,830</b>	<b>530,389</b>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(859)	(809)
Acquisition of investment equity	(5,494)	-
<b>Net cash provided by (used in) investing activities</b>	<b>(6,353)</b>	<b>(809)</b>
<b>Cash flows from financing activities</b>		
<b>Net increase in cash and cash equivalents</b>	<b>1,186,477</b>	<b>529,580</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>637,682</b>	<b>108,102</b>
<b>Cash and cash equivalents at end of year</b>	<b>1,824,159</b>	<b>637,682</b>

See accompanying notes to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

### 1. Reporting entity

The Green Climate Fund (Fund) has been established by 196 Parties to the United Nations Framework Convention on Climate Change (UNFCCC). The Fund was established by a decision of the Conference of the Parties (COP) to the UNFCCC on 11 Dec 2011. Its headquarter is based in Songdo, the Republic of Korea. It will contribute to the achievement of the ultimate objective of the Convention. In the context of sustainable development, the Fund will promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change. The Fund will be guided by the principles and provisions of the Convention.

The Fund will play a key role in channeling new and predictable financial resources to developing countries. GCF will catalyze climate finance – both public and private, and at the national, regional and international levels. The Fund is intended to operate at a larger scale than other comparable funds to promote the paradigm shift towards low-emission and climate-resilient development pathways.

GCF was designated as an operating entity of the UNFCCC's financial mechanism, which it is ultimately accountable to. The COP provides guidance to the Board, including on matters related to policies, programme priorities and eligibility criteria. The Board takes appropriate actions in response to this guidance and reports to the COP annually.

The Fund is governed and supervised by a Board that has full responsibility for funding decisions and that receives the guidance of the COP. The Board oversees the operation of all relevant components of the Fund, approving specific operational policies and guidelines, and approving funding for projects and programmes. The Board is composed of 24 members, and 24 alternate members with equal representation from developing and developed country Parties. In accordance with the Fund's Governing Instrument, the World Bank (IBRD) provides trustee services to the Fund, on an interim basis.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Basis of Preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been applied by the Fund consistently to all periods presented.

#### STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs). Where the IFRS are silent or do not give guidance on how to treat transactions specific to the non-profit sector, accounting policies have been based on the general IFRS principles and other relevant accounting standards, as detailed in the IASB Framework for the Preparation and Presentation of Financial Statements.

#### BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis.

#### FUNCTIONAL AND PRESENTATION CURRENCY

The accompanying financial statements are presented in United States Dollars (“USD”), the Fund’s functional currency. All financial information has been rounded off to the nearest thousands, unless otherwise indicated.

#### USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in accordance with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, incomes and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Application of new and revised IFRS

#### NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED DURING 2016

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31 December 2015.

During 2016 several new standards and amendments became applicable for the first time. However, these do not impact the financial statements of the Fund.

#### STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended 31 December 2016, and have not been applied in preparing the financial statements. The Fund plans to adopt these pronouncements when they become effective. Only those new or amended standards that may have an impact on the Fund reporting are listed below, with their potential effect on the financial statement:

Changes in IFRS to be applied in 2017 - IFRS 15 “Revenue from Contracts with Customers” (May 2014): Based on its current sources of income, the Fund expects a limited impact on its financial statements.

Changes in IFRS to be applied in the 2018 - IFRS 9 “Financial Instruments” (July 2014): The Fund expects a limited impact on the classification and measurement of its financial assets and liabilities. The application of the new impairment requirements might result in possible changes of current accounting and systems.

### 4. Summary of significant accounting policies

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

#### RECEIVABLE

All receivable balances are valued at their net realizable value, that is, the gross amount of receivable minus, if applicable, allowances provided for doubtful debts. Any receivable or portion of receivable judged to be uncollectable is written off. Write offs of receivables are done via allowances for doubtful accounts after all efforts to collect have been exhausted.

#### PROPERTY AND EQUIPMENT

## NOTES TO THE FINANCIAL STATEMENTS

Property and equipment are measured initially at cost. Subsequent to initial recognition as an asset, property and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment comprises its purchase price and all other incidental costs in bringing the asset to its working condition for its intended use.

Subsequent costs are recognized in the carrying amount of property and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. The costs of the day-to-day operation are recognized as expenses.

Property and equipment are depreciated on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives for the current period are as follows:

Plant and equipment	Useful life
Computer equipment and IT infrastructure	3–5 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate.

Depreciation is made in the year the asset is placed in operation and continued until the asset is fully depreciated or its use is discontinued.

### FOREIGN CURRENCY TRANSACTIONS AND TRANSLATIONS

Foreign currency-denominated transactions are translated to US Dollars for reporting purposes at rates which approximate the exchange rates prevailing at the dates of the transactions.

Exchange differences arising from the: (a) settlement of foreign currency-denominated monetary items at rates which are different from which they were originally booked, and (b) translation of balances of foreign currency-denominated monetary items as at reporting date, are credited or charged to operations during the year.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

### ACCOUNTING FOR CONTRIBUTIONS

#### Revenue recognition

Contributions, including unconditional promise for the use of the contributions, are recognized as revenue at the earlier of when there is reasonable assurance that the contributions will be received or such contributions are received.

## NOTES TO THE FINANCIAL STATEMENTS

Contributions, including conditional promise to support specified projects or activities mutually agreed upon by the Fund and the contributor, are fully recognized as revenue at the earlier of when there is reasonable assurance that the contributions will be received or such contributions are received unless there is doubt that the Fund will not be able to use the contributions for intended purposes, in which case the revenue is recognized only to the extent of the expenditures incurred during the year.

### Contributions receivable

The Fund recognizes contributions receivable where there is reasonable assurance that the contributions will be received but the cash has not been received. Contributions receivable are stated at their cost net of a provision for uncollectible contributions.

Promissory notes receivable are measured initially at fair value by discounting the future cash flows with the appropriate discount rates, which reflects the duration and the credit risk of the issuer and presented at amortized cost using the effective rate method at each reporting date. The Fund assesses at the end of each reporting period whether there is any objective evidence that the promissory notes are impaired. If any such evidence exists, the Fund determines the amount of any impairment loss.

### Deferred contribution revenue

The Fund recognizes deferred contribution revenue where there is doubt that the Fund will be able to use the contributions for intended purposes and any unused portion of the contribution received will need to be refunded to the contributor. The revenue recognition for such contributions is deferred to future periods in order to match the underlying related expenses. The revenue is realized in the statement of comprehensive income on a systematic basis in the period during which the underlying related expenses are incurred.

## ACCOUNTING FOR INVESTMENTS IN EQUITY

### Investment in associates

Investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Fund and its associates are eliminated to the extent of the Fund's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Fund recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

Associates are all entities over which the Fund has significant influence that is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. If the Fund holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the Fund has significant influence, unless it can be clearly demonstrated that this is not the case by evidencing in one or more of the following ways:

(a) The Fund is not represented on the board of directors or equivalent governing body of the investee;

## NOTES TO THE FINANCIAL STATEMENTS

- (b) The Fund does not participate in policy-making processes, including participation in decisions about dividends or other distributions;
- (c) The Fund does not have material transactions with its investee;
- (d) The Fund does not have interchange of managerial personnel; or
- (e) The Fund does not have provision of essential technical information.

### Investment in joint ventures

A joint arrangement of which two or more parties have joint control is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

### Investment not subject to associates or joint ventures

Any investment in equity that is not subject to associates or joint ventures is accounted for as available-for-sale financial assets in accordance with “*IFRS 9 Financial Instruments*”.

## ACCOUNTING FOR GRANTS

The accounting for grants uses the principles of IAS 37: Provisions, liabilities and contingent liabilities, together with the “general framework” document to determine when the grants should be recognized as contingent liabilities, grant payables and subsequently recorded in the statement of comprehensive income.

### Contingent Liability

The first point of recognition for grants is at the point of Board approval, where the maximum liability of the grant becomes clear and is agreed with the principal recipient. The accounting treatment at this point is to recognize the grant as a contingent liability due to the uncertainty over the amount of the grant and the substantive ability of the Fund to decommit funds if conditions are not met or funding is not available. Accordingly the point of Board approval is not considered to be a constructive obligation as defined under IAS 37.

Following the Board approval, the grants are governed by a written grant agreement that includes substantive conditions based on performance. There is no constructive obligation for the full value of the grant at the signing date of the grant agreement. Accordingly, an obligation only arises once all criteria have been addressed or otherwise resolved.

### Recognition of Grants payable and expenditure

The recognition of grants payable is determined to be the point at which the conditions are met and the disbursement request is made by the principal recipient. At this point the Fund has a constructive obligation to the principal recipient and the valid amount requested for disbursement is therefore recognized as a grant payable and recorded as expenditure within the statement of comprehensive income.

### Recoverable from Grants

## NOTES TO THE FINANCIAL STATEMENTS

During the implementation period, a part of the funds disbursed for grants may be determined as recoverable from the principal recipients based on the audits and investigations conducted. Grants recoverable are recognized at fair value upon notification to the Principal Recipient and are subject to the same policy of valuation, risk assessment and asset impairment as contributions recoverable from contributor.

### FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized when the Fund becomes a party to the contractual provisions of the underlying instruments.

#### Financial assets

Financial assets are classified into the following specified categories: (a) financial assets at fair value through profit or loss, (b) loans and receivables, (c) available-for-sale financial assets, and (d) held-to-maturity financial assets. The classification depends on the terms of the instruments and purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- (a) Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives not subject to hedge accounting and derivatives separated from financial instruments, such as embedded derivatives, are also categorized as held for trading. Assets in this category are classified as current assets.
- (b) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.
- (c) Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless an investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Regular purchases and sales of financial assets are recognized on the trade date. At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income.

After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. However, investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such equity instruments, shall be measured at cost. Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit

## NOTES TO THE FINANCIAL STATEMENTS

or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

Interest on available-for-sale financial assets and held-to-maturity financial assets calculated using the effective interest method is recognized in the statement of income as part of financial income. Dividends on available-for-sale financial assets are recognized in the statement of income as part of other non-operating income when the Fund's right to receive payments is established.

### Financial liabilities

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Fund classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

### FINANCE INCOME AND FINANCE COSTS

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

### TAXATION

Under the agreement between the Republic of Korea and the Green Climate Fund (GCF) concerning the Headquarters of the Green Climate Fund, signed on 10 June 2013, the GCF is exempt from all direct taxes, except those which are, in fact no more than charges for public utility services; and exempt from all indirect taxes, including any value-added and or/similar taxes and excise duties levied on important purchase of goods and services for official purposes.

### FINANCIAL RISK MANAGEMENT

The Fund will be exposed to various kinds of financial risk (credit risk, market risk, operational risk etc.). The Fund has its Financial Risk Management and Investment framework. The Board adopted a risk appetite methodology and risk registers to manage its exposure to various risk categories. The Fund will continue establishing risk policies and guidelines to further improve risk management tools in financial and non-financial risk management. Funds held in trust by the interim Trustee are invested in accordance with the World Bank's policies and procedures for the investment of trust funds administered by the World Bank.

## NOTES TO THE FINANCIAL STATEMENTS

### EVENTS AFTER THE REPORTING DATE

Post year-end events that provide additional information about the Funds financial position at the reporting date (adjusting events) are reflected in the financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

## NOTES TO THE FINANCIAL STATEMENTS

### 5. Cash and Cash Equivalents

- (a) Cash and cash equivalents as of December 31, 2016 and 2015 are summarized as follows:

<i>(In '000 USD)</i>	2016	2015
Balance held in the GCF Trust Fund (at the World Bank)	1,816,690	633,221
Balances held in Commercial Banks	7,467	4,460
Cash on Hand	2	1
<b>Total</b>	<b>1,824,159</b>	<b>637,682</b>

The International Bank for Reconstruction and Development is serving as the interim trustee (“Trustee”) of the Fund. The Trustee administers contributions received in the Trust Fund in accordance with the Amended and Restated Agreement on the Terms and Conditions for the Administration of the Green Climate Fund Trust Fund (including all Annexes and Attachments attached thereto, which constitute an integral part thereof), dated April 22, 2015 between the Fund and the Trustee (the “GCF Trust Fund Agreement”).

Pending the selection of the service provider, employees’ and employer’s contributions towards the post-employment benefit plan is held under a separate bank account. These restricted cash of USD 2,496 thousands and USD 1,436 thousands in 2016 and 2015 respectively is included under Balances held in Commercial Banks. The corresponding liability is shown under Payable to employees in the Statement of Financial Position.

- (b) Cash and cash equivalents denominated in foreign currencies as of December 31, 2016 and 2015 are as follows:

Foreign currency	2016			2015		
	Foreign currency amount (in '000)	Ending exchange rate	Translation into '000 USD	Foreign currency amount (in '000)	Ending exchange rate	Translation into '000 USD
KRW	679,956	0.0009	582	130,365	0.0009	113
EUR	-	-	-	1,200	1.10	1,367
			582			1,480

## NOTES TO THE FINANCIAL STATEMENTS

### 6. Financial Instruments by Categories

- (a) Categories of financial assets as of December 31, 2016 and 2015 are summarized as follows:

(In '000 USD)	2016			2015	
	Loans and receivables	Available-for-sale financial assets	Total	Loans and receivables	Total
Cash and cash equivalents	1,824,159	-	1,824,159	637,682	637,682
Contributions receivable	1,569,993	-	1,569,993	1,210,653	1,210,653
Investments in security	-	5,494	5,494	-	-
<b>Total</b>	<b>3,394,152</b>	<b>5,494</b>	<b>3,399,646</b>	<b>1,848,335</b>	<b>1,210,653</b>

- (b) Categories of financial liabilities as of December 31, 2016 and 2015 are summarized as follows:

(In '000 USD)	2016	2015
	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost
Accounts payable	1,986	1,651
Payable to employees	2,496	1,436
Other payables	141	-
<b>Total</b>	<b>4,623</b>	<b>3,087</b>

As stated in note 5 to the financial statements, Cash and cash equivalents and Payable to employees include the fund withheld for post-employment benefit plan of \$ 2,496 and \$ 1,436 thousands in 2016 and 2015 respectively.

- (c) Detail of net gains (or losses) on each category of financial instruments by category for the years ended December 31, 2016 and 2015 are summarized as follows:

(In '000 USD)	2016			2015	
	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Loans and receivables	Financial liabilities measured at amortized cost
Bank and trust fund income	13,157	-	-	1,046	-

## NOTES TO THE FINANCIAL STATEMENTS

Foreign exchange gain (loss)	(103,404)	-	-	(2,786)	-
Present value amortization on promissory note	(737)	-	-	468	-
<b>Total</b>	<b>(90,984)</b>	<b>-</b>	<b>-</b>	<b>(1,272)</b>	<b>-</b>

### 7. Contributions Receivable

In accordance with signed arrangements/ agreements a number of contributors have deposited promissory notes. IBRD, as the interim trustee of the fund is holding these promissory notes on behalf of the fund. These are non-interest-bearing and payable at par value. Promissory notes encashable within one year from the end of reporting period are classified as current assets-receivables. Promissory notes encashable after more than one year from the end of reporting period are classified as non-current assets- receivables.

The promissory notes receivables are measured initially at fair value by discounting the future cash flows with the appropriate discount rates, which reflects the duration and the credit risk of the issuer and presented at amortized cost using the effective rate method at each reporting date. The Fund assesses at the end of each reporting period whether there is any objective evidence that the promissory notes are impaired. If any such evidence exists, the Fund determines the amount of any impairment loss. Promissory notes are denominated in Euro, Japanese Yen, Swedish Krona and Pound Sterling and were revalued to USD at the end of reporting period at the prevailing exchange rates.

As at December 31, 2016, encashment schedule and details of present value on promissory notes are as follows:

Encashment	Amount (In '000 USD)
In 2017	470,102
In 2018	514,267
In 2019	350,625
In 2020	116,043
In 2021	44,158
In 2022	41,950
In 2023	39,742
Nominal value of promissory notes	1,576,887
Unamortized present value discount	(6,894)
Present value of promissory notes	1,569,993

## NOTES TO THE FINANCIAL STATEMENTS

Contributions receivable denominated in foreign currencies as of December 31, 2016 and 2015 are as follows:

Foreign currency	2016			2015		
	Foreign currency amount (in '000)	Ending exchange rate	Translation into '000 USD	Foreign currency amount (in '000)	Ending exchange rate	Translation into '000 USD
EUR	286,120	0.9470	302,128	169,380	0.9181	184,480
JPY	48,673,011	116.9400	416,222	28,187,200	120.3848	234,142
GBP	397,124	0.8128	488,582	239,339	0.6748	354,676
SEK	3,288,769	9.0585	363,061	3,686,848	8.4299	437,354
<b>Total</b>			<b>1,569,993</b>			<b>1,210,652</b>

### 8. Investments in equity

During the period ended December 31, 2016, The Fund acquired an equity investment of USD 5,494 thousands in KawiSafi Ventures Limited ("KawiSafi") made in accordance with GCF Board approved project under Board decision B.11/11. Details of equity investment as of December 31, 2016 are as follows:

- (a) Name of invested entity: KawiSafi Ventures Limited
- (b) Acquisition cost: USD 5,494 thousands
- (c) Carrying amount at the end of reporting period: USD 5,494 thousands
- (d) Number of shares owned: 5,493.91
- (e) % of ownership: 47.45%

The investment equity in KawiSafi is accounted for in accordance with "*IFRS 9 Financial Instruments*" as the Fund does not have significant influence over the invested entity's financial or operating decision. Under "*IFRS 9 Financial Instruments*", the investment equity in KawiSafi is classified as available-for-sale financial assets and measured at historical cost as the investment equity does not have a quoted price in an active market and its fair value cannot be reliably measured.

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Property and Equipment

(a) Details of property and equipment as of December 31, 2016 and 2015 are as follows:

<b>(i) December 31, 2016</b>			
<i>(In '000 USD)</i>	Acquisition cost	Accumulated depreciation	Carrying amount
Computer/IT equipment	2,191	(1,108)	1,083
Fixed Assets in Transit	40	-	40
<b>Total</b>	<b>2,231</b>	<b>(1,108)</b>	<b>1,123</b>
<b>(ii) December 31, 2015</b>			
<i>(In '000 USD)</i>	Acquisition cost	Accumulated depreciation	Carrying amount
Computer/IT equipment	1,372	(587)	785
<b>Total</b>	<b>1,372</b>	<b>(587)</b>	<b>785</b>

(b) Changes in property and equipment for the year ended December 31, 2016 and 2015 are summarized as follows:

*(In '000 USD)*

	January 1, 2016	Acquisition	Disposals	Depreciation	December 31, 2016
Computer/IT equipment	785	819	-	(521)	1,083
Fixed Assets in Transit	-	40	-	-	40
<b>Total</b>	<b>785</b>	<b>859</b>	<b>-</b>	<b>(521)</b>	<b>1,123</b>
	January 1, 2015	Acquisition	Disposals	Depreciation	December 31, 2015
Computer/IT equipment	433	809	-	(457)	785
<b>Total</b>	<b>433</b>	<b>809</b>	<b>-</b>	<b>(457)</b>	<b>785</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Funds

All contributions received where the use is limited by statutory restrictions, contributor-imposed purpose or time restrictions have been classified as temporarily restricted funds. All other funds are recognized as unrestricted funds.

Changes in temporary restricted funds by type of restriction for the year ended December 31, 2016 are as follows:

(In '000 USD)

	January 1, 2016	Released	Received with restriction	December 31, 2016
Time restriction	917,684	(274,216)	722,252	1,365,720
Contributor- imposed restriction	292,969	-	266,746	559,715
<b>Total</b>	<b>1,210,653</b>	<b>(274,216)</b>	<b>988,998</b>	<b>1,925,435</b>

Time restriction represents the funds to be collected in future years (i.e. promissory note) that were recorded as the present value of future collections as at the end of reporting period. This type of fund will be reclassified into unrestricted funds in the year of receipt.

Contributor-imposed restriction represents the funds where the use of the funds is limited by contributor-imposed purpose. This type of fund will be reclassified into unrestricted funds when the contributor-imposed purpose is met or the fund is released from such restriction.

## NOTES TO THE FINANCIAL STATEMENTS

### 11. Income from Contributors

As stated in Note 5, contributions are received through GCF Trust Fund account at World Bank administered by the trustee. The carrying value of GCF Trust Fund has changed from the contributions, investment returns on GCF Trust Fund balances, foreign currency transaction or translation and present value amortization on promissory note. Those changes comprise the comprehensive incomes of the Fund.

Details of incomes from GCF Trust Fund for the period ended December 31, 2016 are as follows:

<i>(In '000 USD)</i>	Nominal value	Unamortized present value discount on promissory note	Total
Contribution revenues	1,674,174	(4,087)	1,670,088
Foreign exchange gain/(loss)	(103,859)	456	(103,403)
Present value amortization on promissory note	-	(737)	(737)
<b>Total</b>	<b>1,570,315</b>	<b>(4,367)</b>	<b>1,565,948</b>

The foreign exchange gain (loss) is primarily due to exchange gain/loss at the time of encashment of promissory notes and on year end revaluation of promissory notes received in currency other than USD. On the reporting date date promissory notes held by the interim trustees were revalued at the year-end exchange rate.

The details of changes in total contribution that the Fund has received through trust fund account for the year ended December 31, 2016 are presented as follow:

(a) By contributor:

<i>(In '000 USD)</i>	January 1, 2016	Increase (Decrease)	December 31, 2016
Australia	54,518	44,860	99,378
Austria	6,565	12,997	19,562
Belgium	48,882	33,678	82,560
Bulgaria	109	-	109
Canada	-	128,230	128,230
Canada	-	-	-
Chile	300	-	300
Columbia	-	287	287
Cyprus	-	-	-
Czech Republic	2,789	2,068	4,857
Denmark	32,242	7,039	39,281
Estonia	898	225	1,123
Finland	38,256	-	38,256
France	115,720	68,336	184,057
Germany	228,899	194,823	423,721
Hungary	-	3,511	3,511
Iceland	150	350	500

## NOTES TO THE FINANCIAL STATEMENTS

Indonesia	244	-	244
Ireland	-	2,076	2,076
Italy	55,871	-	55,871
Japan	321,367	336,987	658,354
Korea	3,158	-	3,158
Korea	21,500	11,000	32,500
Latvia	417	-	417
Liechtenstein	-	50	50
Lithuania	-	113	113
Luxembourg	5,390	5,548	10,937
Luxemburg	-	5,549	5,549
Malta	55	110	165
Mexico	10,000	-	10,000
Monaco	280	270	550
Netherlands	8,459	13,030	21,490
New Zealand	2,198	-	2,198
Norway	49,996	48,400	98,396
Panama	500	-	500
Poland	103	-	103
Portugal	2,168	-	2,168
Romania	-	50	50
Spain	-	2,207	2,207
Sweden	478,196	(25,059)	453,138
Switzerland	30,562	35,000	65,562
United Kingdom	360,557	138,580	499,137
United States	-	500,000	500,000
<b>Total</b>	<b>1,880,349</b>	<b>1,570,315</b>	<b>3,450,664</b>

(b) By instrument type:

<i>(In '000 USD)</i>	January 1, 2016	Increase (Decrease)	December 31, 2016
Cash	667,156	1,206,621	1,873,777
Promissory note	1,213,193	363,694	1,576,887
<b>Total</b>	<b>1,880,349</b>	<b>1,570,315</b>	<b>3,450,664</b>

(c) By contribution type:

<i>(In '000 USD)</i>	January 1, 2016	Increase (Decrease)	December 31, 2016
Capital	284,525	370,651	655,176
Grant	1,595,824	1,199,664	2,795,488
<b>Total</b>	<b>1,880,349</b>	<b>1,570,315</b>	<b>3,450,664</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Investment & Other Income

Investment and Other income comprise these following.

<i>(In '000 USD)</i>	2016	2015
Investment income	13,157	1,046
Other income	619	1,336
<b>Total</b>	<b>13,776</b>	<b>2,470</b>

Investment income represents the investment return on GCF Trust Fund balances that were invested in accordance with the investment strategy established for all trust funds administered by the World Bank.

Other income represents the fee received from accreditation process.

### 13. Employee Benefits

#### (a) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an employer and employees pays fixed contributions and the employer will have no legal obligation to pay further amount. The Fund operates a defined contribution plan for employees. Employee benefits relating to employee service rendered will be based on the contributions and the investment earnings on the plan assets which will be managed separately from the Fund's assets. The Fund's contributions to the defined contribution plan are recognized as an expense in the year in which they are incurred. Employees' contribution to the retirement fund was USD 513 thousands and USD 377 during the year 2016 and 2015 respectively.

The expenses related to post-employment benefit under defined contribution plans for the year ended December 31, 2016 and December 31, 2015 are as follows:

<i>(In '000 USD)</i>	2016	2015
Expense related to post-employment benefit under defined contribution plan	1,025	753

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Administrative Expenses

Details of administrative expenses for the secretariat office for the year ended December 31, 2016 and December 31, 2015 are as follows:

<i>(In '000 USD)</i>	2016	2015
Salaries and Benefits	10,637	7,769
Consultants Fees	5,641	4,359
Contractual Services	1,980	1,874
Supplies and Services	3,779	2,507
Travel	2,821	1,765
Depreciation	521	457
<b>Total</b>	<b>25,379</b>	<b>18,731</b>

### 15. Programme

Programme expenditures for the year ended December 31, 2016 and December 31, 2015 are related to the 'Readiness & Preparatory Support Programme' and the Project Preparation Facility.

<i>(In '000 USD)</i>	2016	2015
Readiness & Preparatory Support Programme'	5,102	1,412
Project Preparation Facility	500	0
<b>Total</b>	<b>5,602</b>	<b>1,412</b>

#### a) Readiness & Preparatory Support Programme

Details of 'Readiness & Preparatory Support Programme' expenditures for the year ended December 31, 2016 and December 31, 2015 are as follows:

<i>(In '000 USD)</i>	2016	2015
Consultants Fees	849	569

## NOTES TO THE FINANCIAL STATEMENTS

Regional workshops & NDA visits	1,015	640
Grants	2,730	161
Professional Services	441	-
Travel	67	42
<b>Total</b>	<b>5,102</b>	<b>1,412</b>

### b) Project Preparation Facility

Details of Project Preparation Facility expenditures for the year ended December 31, 2016 and December 31, 2015 are as follows:

<i>(In '000 USD)</i>	2016	2015
Grants	500	0
<b>Total</b>	<b>500</b>	<b>0</b>

## 16. Contingent Liabilities

### a) Readiness & Preparatory Support Programme

Contingent liabilities for Readiness & Preparatory Support Program grants as of December 31, 2016 and 2015 are analyzed below based on the funds available. The Board approved total funding availability of USD 80 million at 31 December 2016. A cumulative total of USD 6,912 thousand was expensed as at 31 December 2016 leaving a balance of USD 73,088 thousand 31 December 2016. The corresponding figure at 31 December 2015 was USD 28,190 thousand.

<i>(In '000 USD)</i>	2016	2015
Funds available but not disbursed or signed	61,275	26,551
Signed but not disbursed	11,813	1,639
<b>Total</b>	<b>73,088</b>	<b>28,190</b>

### b) Project Preparation Facility

Contingent liabilities for the Project Preparation Facility grants as of December 31, 2016 and 2015 are analyzed below based on the Board approval less already disbursed.

<i>(In '000 USD)</i>	2016	2015
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## NOTES TO THE FINANCIAL STATEMENTS

Funds available but not disbursed or signed	40,000	0
<b>Total</b>	<b>40,000</b>	<b>0</b>

In addition the Board approved a project preparation grant of USD 1,500 thousand for a project submitted by the Ministry of Natural Resources in Rwanda. Of this amount USD 500 thousand has been disbursed leaving a contingent liability of USd 1,000 thousand.

### c) Project Funding Decisions

The Board at its 11<sup>th</sup> meeting in Livingstone in November 2015 approved amounts of US\$ 167.83 million in projects & programme funding.

The Board at its 13th meeting in Songdo in July 2016 approved amounts of US\$ 257.11 million in projects & programme funding.

The Board at its 14th meeting in Songdo in November 2016 approved amounts of US\$ 746.45 million in projects & programme funding.

The Board at its 15th meeting in Samoa in December 2016 approved amounts of US\$ 315.24 million in projects & programme funding.

The Board at its 16th meeting in Songdo in April 2017 approved amounts of US\$ 755.1 million in projects & programme funding.

## 17. Lease

Under the agreement between the Ministry of Strategy and Finance of the Republic of Korea, The Incheon Metropolitan City of the Republic of Korea and The Green Climate Fund signed on 8<sup>th</sup> October 2013, Incheon City provides to the Fund the use of premises free of payment of rental for the entire duration of the Fund's operation in Songdo.

## 18. Related Parties

Related parties include the members of the Board, Board committees, senior management and close family members of the Board, Board committees and senior management. There was no loan to or from related parties outstanding as at 31 December 2016 and 2015. The Fund does not remunerate its Board members.

Remuneration of key management consists of basic salary, health insurance benefit, other benefits and contribution to post-employment pension plan. The remuneration of key management, comprising the Executive Director and members of senior management team, amounted to USD 2,229 thousand and USD2,248 thousand for the years ended December 31, 2016 and 2015, respectively.